VUELING AIRLINES, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2009 AND 2008

(Thousands of Euros)

ASSETS	Notes in the Report	31.12.09	31.12.08	SHAREHOLDERS' EQUITY AND LIABILITIES	Notes in the Report	31.12.09	31.12.08
NON-CURRENT ASSETS:				**NET EQUITY:**	**Note 11**		
Intangible assets-	**Note 6**	**61.084**	**7.809**	**Capital-**		**29.905**	**14.952**
Goodwill		15.857	-	Registered share capital		29.905	14.952
Computer software		8.494	7.809	**Share premium**		**199.185**	**133.545**
Slots		36.733	-	**Reserves-**		**(5.514)**	**(5.514)**
Property, plant and equipment-	**Note 7**	**8.550**	**3.534**	Other reserves		(5.514)	(5.514)
Aircraft components		5.674	856	**Treasury shares**		**(713)**	**(713)**
Other tangible fixed assets		2.876	2.678	**Retained earnings**		**(104.373)**	**(112.911)**
Long-term financial investments	**Note 9.1**	**85.640**	**24.838**	**Profit for the year-**		**27.777**	**8.539**
Deferred tax assets	**Note 16.5**	**79.290**	**47.838**	**Total Capital and Reserves:**		**146.267**	**37.898**
Total non-current assets		**234.564**	**84.019**	**Adjustments for changes in value-**		**178**	**5.862**
				Hedging transactions	**Note 15**	178	5.862
				Subsidies, donations and bequests received	**Note 11.6**	**914**	**2.394**
				Total net equity		**147.359**	**46.154**
				NON-CURRENT LIABILITIES:			
				Long-term provisions-	**Note 12**	**111.825**	**21.001**
				Other provisions		111.825	21.001
				Long-term liabilities-	**Notes 13 y 15**	**2.570**	**-**
				Derivatives		2.570	-
				Deferred tax liabilities	**Note 16.6**	**13.335**	**776**
				Total non-current liabilities		**127.730**	**21.777**
CURRENT ASSETS:							
Inventories	**Note 10**	**170**	**2.170**				
Trade		170	2.170				
Trade and other receivables-		**33.628**	**13.753**				
Trade receivables for sales and services		27.877	8.689	**CURRENT LIABILITIES:**			
Receivables, related companies	**Note 14**	1.716		**Short-term liabilities-**	**Note 13**	**14.918**	**2.338**
Sundry receivables		3.536	4.564	Debts with credit institutions		12.966	-
Other receivables with public authorities	**Note 16.1**	499	500	Derivatives	**Note 15**	1.952	2.338
Short-term financial investments-	**Note 9.2**	**27.807**	**22.115**	**Debts with related companies**	**Note 14**	**10.641**	**-**
Debt securities		-	2.973	**Trade and other payables-**		**87.349**	**59.694**
Derivatives	**Note 15**	2.685	331	Suppliers		55.423	39.312
Other financial assets		25.122	18.811	Sundry payables		20.193	15.011
Short-term prepayments and accrued income		**6.184**	**4.269**	Personnel		3.403	2.412
Cash and cash equivalents-	**Note 9,3**	**121.282**	**20.858**	Other debts with public authorities	**Note 16.1**	6.194	2.959
Cash		46.007	20.858	Advances from customers	**Note 5.9**	2.136	-
Other cash equivalents		75.275	-	**Short-term accruals and deferred income**	**Note 5.9**	**35.638**	**17.221**
Total current assets		**189.071**	**63.165**	**Total current liabilities**		**148.546**	**79.253**
TOTAL ASSETS		**423.635**	**147.184**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**		**423.635**	**147.184**

Notes 12 to 24 in the accompanying Report form an integral part of the Balance Sheet as at 31 December 2009.

VUELING AIRLINES, S.A.

INCOME STATEMENTS 2009 AND 2008
(Thousands of Euros)

	Notes in the Report	2009	2008
CONTINUING OPERATIONS:			
Net turnover-	**Note 17.1**	**597.962**	**437.280**
Services		597.962	437.280
Work performed by the company for its assets		**-**	**333**
Procurements-	**Note 17.2**	**(105.863)**	**(152.745)**
Consumption of raw materials and other consumable materials		(105.863)	(152.745)
Other operating revenue	**Note 17.4**	**5.042**	**10.872**
Personnel expenses-	**Note 17.5**	**(67.094)**	**(55.612)**
Salaries, wages and similar items		(57.596)	(46.642)
Social contributions		(9.498)	(9.130)
Provisions		-	160
Other operating expenses-	**Note 17.6**	**(381.142)**	**(275.727)**
External services		(380.464)	(272.845)
Taxes		(221)	(259)
Losses, impairment and variation in provisions for commercial operations		(457)	(2.623)
Depreciation and amortisation	**Notes 6 y 7**	**(4.136)**	**(2.642)**
Impairment and gains (losses) on disposal of fixed assets	**Notes 6 y 7**	**(4.540)**	-
Gains (losses) on disposals and other items		(4.540)	**-**
OPERATING PROFIT (LOSS)		**40.229**	**(38.241)**
Financial income-		**1.624**	**2.043**
From tradable securities and other financial instruments		1.624	2.043
Financial expenses-		**(211)**	**398**
From loans		(211)	398
Exchange differences	**Note 18**	**(1.489)**	**(2.798)**
FINANCIAL LOSS		**(76)**	**(357)**
Profit (Loss) before tax		**40.153**	**(38.598)**
Corporation tax	**Note 16.3**	(12.376)	47.137
Profit for the year from continuing operations		**27.777**	**8.539**
DISCONTINUED OPERATIONS:			
Profit for the year from discontinued operations net of tax		-	-
PROFIT FOR THE YEAR		**27.777**	**8.539**

Notes 1 to 24 in the accompanying Report form an integral part of the 2009 income statement.

VUELING AIRLINES, S.A.

STATEMENTS OF CHANGES IN NET EQUITY 2009 AND 2008
A) STATEMENT OF RECOGNISED INCOME AND EXPENSES
(Thousands of Euros)

	Notes in the Report	2009	2008
PROFIT (LOSS) FROM THE INCOME STATEMENT (I)		**27.777**	**8.539**
Income and expenses directly attributable to net equity:			
From cash flow hedging	**Note 15**	(18.425)	10.671
Tax effect		5.527	(75)
Total income and expenses directly attributable to net equity (II)		**(12.898)**	**10.596**
Amounts transferred to the income statement:			
From cash flow hedging	**Note 15**	10.306	17.260
Tax effect		(3.092)	-
Subsidies, donations and bequests received	**Note 11.6**	(2.114)	(266)
Tax effect		634	-
Total amounts transferred to the income statement (III)		**5.734**	**16.994**
Total recognised income and expenses (I+II+III)		**20.613**	**36.129**

Notes 1 to 24 in the accompanying Report form an integral part of the 2009 statement of recognised income and expenses

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN NET EQUITY 2009 AND 2008
B) TOTAL STATEMENT OF CHANGES IN EQUITY

(Thousands of Euros)

	Capital	Share Premium	Reserves	Treasury Shares	Retained Earnings	Profit (Loss) for the Year	Adjustments for Changes in Value	Subsidies, Donations and Bequests	Total
Final balance 2007	**14.952**	**133.679**	**1.278**	-	**(24.619)**	**(81.395)**	-	-	**43.895**
Adjustments for NPGC (New General Accounting Plan)	-	-	(5.186)	(1.278)	-	-	(22.671)	2.660	**(26.475)**
Changes in criteria	-	-	(364)	-	(6.897)	-	-	-	**(7.261)**
Adjusted balance at start of 2008	**14.952**	**133.679**	**(4.272)**	**(1.278)**	**(31.516)**	**(81.395)**	**(22.671)**	**2.660**	**10.159**
Total recognised income and expenses	-	-	(677)	-	(81.395)	89.934	28.533	(266)	**36.129**
Operations with shareholders and owners	-	(134)	(565)	565	-	-	-	-	**(134)**
Final balance 2008 and adjusted balance at start of 2009	**14.952**	**133.545**	**(5.514)**	**(713)**	**(112.911)**	**8.539**	**5.862**	**2.394**	**46.154**
Total recognised income and expenses	-	-	-	-	-	27.777	(5.684)	(1.480)	**20.613**
Distribution of previous year's profit (loss)	-	-	-	-	8.539	(8.539)	-	-	**-**
Capital increase and net equity increase due to merger (Note 3)	14.953	65.640	-	-	-	-	-	-	**80.593**
Final balance 2009	**29.905**	**199.185**	**(5.514)**	**(713)**	**(104.373)**	**27.777**	**178**	**914**	**147.359**

Notes 1 to 24 in the accompanying Report form an integral part of the 2009 total statement of changes in equity.

VUELING AIRLINES, S.A.

CASH FLOW STATEMENTS 2009 AND 2008

(Thousands of Euros)

	Notes in the Report	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**57.796**	**(35.444)**
Profit (loss) for the year before tax		**40.153**	**(38.598)**
Adjustments to profit (loss)-		**39.692**	**11.736**
Depreciation and amortisation	**Notes 6 y 7**	4.136	2.642
Variation in provisions		30.980	10.734
Gains (losses) on deregistration and disposal of fixed assets	**Notes 6 y 7**	4.540	-
Financial income		(1.624)	(2.043)
Financial expenses		211	398
Exchange rate differences	**Note 18**	1.449	5
Changes in working capital-		**(23.462)**	**(19.760)**
Inventories		**-**	(825)
Trade and other receivables		34.536	(9.525)
Other current assets		1.386	(619)
Trade and other payables		(22.382)	(6.066)
Other current liabilities		(26.880)	(2.325)
Other current assets and liabilities		(10.122)	(400)
Other cash flows from operating activities-		**1.413**	**11.178**
Interest paid		1.624	(398)
Interest received		(211)	2.043
Other amounts paid and received		-	9.533
CASH FLOWS FROM INVESTMENT ACTIVITIES (II)		**16.004**	**(6.735)**
Payments on investments-		**(13.023)**	(6.735)
Intangible fixed assets	**Notes 6 y 7**	(2.440)	(3.390)
Property, plant and equipment	**Notes 6 y 7**	(1.197)	(804)
Other financial assets	**Note 9**	(9.386)	(2.541)
Other amounts received-		**29.027**	-
Business combination (merger with Clickair, S.A.)	**Note 3**	29.027	
CASH FLOWS FROM FINANCING ACTIVITIES (III)	**Note 13**	**4.800**	**-**
Amounts received and paid on financial instruments-		**4.800**	**-**
Debts with credit institutions		4.800	**-**
EFFECT OF INTEREST RATE VARIATIONS (IV)	**Note 18**	**40**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**78.640**	**(42.179)**
Cash and cash equivalents at the start of the year		42.642	84.821
Cash and cash equivalents at the end of the year		121.282	42.642

Notes 1 to 24 in the accompanying Report form an integral part of the 2009 cash flow statement.

VUELING AIRLINES, S.A.

Notes to the financial statements for the year ending 31 December 2009 and the management report, together with the Auditors' Report

Notes to the financial statements for the year ending 31 December 2009

1. Company Activity

The Company Vueling Airlines, S.A. (hereinafter, Vueling or the Company) is a company incorporated in Spain in accordance with the Public Limited Companies Act.

The Articles of Association state that the corporate purpose is to operate and manage the air passenger transport business under the commercial name of Vueling.

Its business address is in Barcelona, in the Mas Blau II Business Park, in plaza del Pla de l'Estany, No. 5 (El Prat de Llobregat). The Company mainly operates in Spain and the European Union.

2. Basis for presentation of the Financial Statements

2.1. True and Fair View

The accompanying financial statements have been obtained from the Company's accounting records and are presented in accordance with R.D. 1514/2007, which approves the General Accounting Plan so that they give a true and fair view of the Company's net worth, financial position, results and cash flow during the year. The financial statements have been prepared by the Company's Directors and will be submitted for approval by the General Meeting of Shareholders. They are expected to be approved without any amendment.

The 2008 financial statements were approved by the General Meeting of Shareholders held on 5 May 2009.

As described in Note 3, in 2009 the Company merged with the airline Clickair, S.A. Consequently, for accounting purposes as of 1 July 2009, the accompanying financial statements record the effect of said business combination (Note 2.4).

2.2. Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. In addition, the Directors have prepared these annual financial statements in accordance with all mandatory accounting principles and standards which have a material effect on the aforementioned financial statements.
There is no mandatory accounting principle which has not been applied.

2.3. Critical aspects for measuring and estimating uncertainty

In preparing the accompanying financial statements, the Company's Directors have used estimates to measure some of the assets, liabilities, revenue, expenses and commitments which are recorded therein. These estimates basically refer to:

- The fair value and useful life assigned to Clickair, S.A.'s intangible fixed assets as a result of the merger.
- Calculation of goodwill impairment (see Notes 5.1 and 6).
- The useful life of tangible assets and the other intangible assets (see Notes 5.1 and 5.2).
- Calculation of provisions (see Notes 5.10 and 12).
- The market value of certain financial instruments (see Notes 5.4.4 and 15).

- The assessment of possible losses due to the impairment of certain financial assets (see Note 5.4).

Although these estimates are performed on the basis of the best information available at the 2009 balance sheet date, it is possible that the events which may take place in the future require them to be modified (up or down) prospectively in the coming years.

2.4. Information comparison

For informative purposes, the information contained herein for 2009 is presented together with the 2008 information.

As described in Note 3, the Company merged with Clickair, S.A. for accounting purposes as from 1 July 2009. This Merger by takeover has meant that all the assets and liabilities of the acquired company, Clickair, S.A., as at 1 July 2009 have been included in the accompanying balance sheet. The accompanying income statement includes the Company's individual profit from the first half of the year plus the profit from the second half of the year for the Company resulting from the merger.

2.5. Aggregation of items

Certain items in the balance sheet, the income statement, the statement of changes in net equity and the cash flow statement are grouped together so as to aid their understanding. However, material information has been broken down in the corresponding Notes.

2.6. Changes in accounting criteria

There were no significant changes in accounting criteria in 2009 compared with the criteria applied in 2008.

3. Business combination

In 2009, the Company merged with Clickair, S.A.

The transaction was structured by the Company as a merger by takeover of Clickair, S.A.

The main economic reasons for the aforementioned merger were to obtain significant revenue and cost synergies.

The merger process was as follows:

- On 9 January 2009, The Directorate-General for Competition of the European Commission authorised, with certain conditions, the merger between the Company and Clickair, S.A. The Commission's approval was dependent on a series of slots being made available if requested by a competitor.

- On 13 February 2009, the Company's Board of Directors approved the swap ratio based on the real value of both companies' share capital, set at 2.9892561 shares, each with a par value of one euro, of the Company for each Clickair, S.A. share, with a par value of €10, thus assigning the same value to both companies.

- On 5 May 2009, the General Meetings of Shareholders of both companies approved the merger.

- On 15 June 2009, as a consequence of the share swap arising from the capital increase undertaken in the Company as a result of the merger, IBERIA, Líneas Aéreas de España, S.A. (hereinafter, IBERIA) filed an application with the CNMV for an exemption from the obligation to formulate a takeover bid provided for in Section 8.g) of Royal Decree 1066/2007, of 27 July, regarding the regime for takeover bids, to the extent that following said merger, IBERIA achieved a possible controlling interest in the Company’s share capital in accordance with Section 4 of Royal Decree 1066/2007, which determines the obligation to formulate a takeover bid for all of the shares making up the Company’s share capital.

- On 29 June 2009, the CNMV (Spanish Securities Market Commission) board agreed that IBERIA was not required to make a takeover bid for the Company once it was verified that the conditions included under Section 8.g) of the aforementioned Royal Decree 1066/2007 were met.

- On 14 July 2009, the merger document was executed before a notary public and filed in the Companies Registry of Barcelona on 16 July 2009, although backdated to 1 July 2009 for accounting purposes.

The merger was executed by means of a capital increase in Vueling Airlines, S.A. (see Note 11.1), for 14,952 thousand euros (corresponding to 14,952,259 new shares, each with a par value of one euro), with a share premium of 65,640 thousand euros, which has been fully subscribed and paid up by means of a non-monetary contribution of all of Clickair S.A.'s shares.

See Appendix 1 herein for the accounting disclosures required by Act 43/1995.

The cost of the aforementioned business combination was 87,216 thousand euros, of which 80,593 thousand euros correspond to the fair value of Clickair, S.A., based on independent expert reports, while the remaining 6,623 thousand euros correspond to costs associated with the business combination.

Certain assets and liabilities have been recognised at their fair value on the merger date, which are shown in the following table (in thousands of euros):

TOTAL ASSETS	Fair Value
NON-CURRENT ASSETS:	
Intangible fixed assets:	
- Slots	36,733
- Other intangible fixed assets	5,461
Property, plant and equipment	5,535
Long-term financial investments	37,920
Deferred tax assets	42,968
Total non-current assets	**128,617**
CURRENT ASSETS:	
Trade and other receivables	53,112
Short-term financial investments	22,867
Short-term prepayments and accrued income	3,301
Cash and cash equivalents	29,027
Total current assets	**108,307**
TOTAL ASSETS	**236,924**

TOTAL LIABILITIES	Fair Value
NON-CURRENT LIABILITIES:	
Long-term provisions	36,178
Long-term liabilities	1,891
Deferred tax liabilities	13,062
Total non-current liabilities	**51,131**
CURRENT LIABILITIES:	
Short-term liabilities	8,459
Trade and other payables	60,678
Short-term accruals and deferred income	45,297
Total current liabilities	**114,434**
TOTAL LIABILITIES	**165,565**

The recording of the merger in the accounts this year is definitive.

The Company's Directors estimate that the revenue attributable to the business combination from the acquisition date up to the 2009 balance sheet date is in the range of between 195 and 205 million euros, while the profit is in the range of between 20 and 23 million euros.

If the above-mentioned business combination had been carried out at the start of 2009, the Company's revenue and profit for the year would have been:

	Thousands of Euros
Net turnover	752,968
Profit for the year after tax	24,347

4. Distribution of profit

The Company's Directors' proposal for distributing the 2009 profit, which will be submitted for approval by the General Meeting of Shareholders, is as follows:

	Thousands of Euros
Offsetting losses from prior years	27,777
Total	27,777

5. Recognition and measurement

The main rules for recognition and measurement used by the Company in preparing the 2009 financial statements, in accordance with those established by the General Accounting Plan, were as follows:

5.1. Intangible fixed assets

The intangible fixed assets are made up of goodwill, the slots resulting from the merger with Clickair, S.A. and computer software.

As a general rule, intangible fixed assets are initially measured at their acquisition price or production cost. They are subsequently measured at their cost minus the corresponding accumulated amortisation and, as the case may be, losses for impairment. These assets are amortised based on their useful lives, except goodwill.

Goodwill

Goodwill appears in the assets when its value is clear based on an acquisition for consideration in the context of a business combination. Goodwill is assigned to each of the cash-generating units expected to receive the benefits of the business combination and is not amortised. Instead, these cash generating units undergo an impairment test, at least once per year, in accordance with the methodology indicated below. As the case may be, the corresponding value adjustment is recorded.

Impairment adjustments recorded in goodwill are not subject to review in subsequent years. The criteria for determining possible goodwill losses are described in the section "Impairment of tangible and intangible assets".

Specifically, under this heading the Company records the goodwill resulting from the merger by takeover of Clickair, S.A., as described in Note 3.

Computer software

In this account, the Company records the costs incurred in the acquisition and development of computer software, including the costs of developing websites. The maintenance costs of computer software are charged to the income statement in the year in which they are incurred.

Computer software is amortised applying the straight line method over a period of five years.

The work which the Company performs for its own fixed assets is recorded at the accumulated cost resulting from adding external costs and internal costs based on the direct labour incurred.

Slots

Under this heading, the Company records the fair value of the slots resulting from the merger with Clickair, S.A. Based on an analysis of all the significant factors, the Company's Directors have estimated that there is no foreseeable limit for the period over which these assets are expected to generate net cash flow. Therefore, these assets have been classified as having an indefinite useful life and are not amortised, but are subject to an impairment test in accordance with the methodology specified below. The useful life classification is reviewed at the end of each year and is consistent with the Company's corresponding business plans. The criteria to determine the possible loss of slots is described below.

Impairment of property, plant and equipment and intangible assets

At the balance sheet date each year (in the case of goodwill, intangible assets with an indefinite useful life and other assets) or whenever there are signs of impairment (in the case of goodwill and intangible assets with an indefinite useful life), the Company carries out an impairment test to estimate any possible losses in value which would reduce the recoverable value of said assets to an amount lower than their carrying amount.

The recoverable value is determined as the greater value between the fair value less costs to sell and the value in use.

The procedure introduced by the Company's Management to carry out the aforementioned test is as follows:

- The recoverable values are calculated for each cash-generating unit. Whenever possible, impairment calculations are carried out individually item by item.

- Every year, the Management prepares financial projections for revenue and profits for each cash-generating unit based on their business plan.

- The main variables which affect the calculation of recoverable value are:

    - The financial projections for revenue and profit for the next four years, based on the business plan, plus perpetual income without growth.

    - The discount rate to be applied. This is understood as the weighted average cost of capital, which is mainly affected by the cost of the liabilities and the risks specific to the assets. The discount rate used in 2009 was 9%.

The projections are prepared based on past experience, the business plan and the best available estimates, with these being consistent with external information.

These business plans are reviewed and finally approved by the Company's Directors.

If an impairment loss should be recognised for a cash-generating unit to which all or part of the goodwill has been allocated, then firstly the carrying amount for the goodwill corresponding to that unit is reduced. If the impairment exceeds that amount, then the carrying amount of the other assets of the cash-generating units are reduced *pro rata* up to the greater of the following values: its fair value minus costs to sell, its value in use and zero.

When an impairment loss is subsequently reversed (which is not allowed in the specific case of goodwill), the carrying amount for the asset or the cash-generating unit is increased by the revised estimates of the recoverable value, but in such a way that the increased carrying amount does not exceed the carrying amount which would have been determined if no impairment loss had been recognised in previous years. This reversal of an impairment loss is recognised as income.

The Company's Directors do not expect problems of impairment loss of its property, plant and equipment and intangible assets at the balance sheet date.

5.2. Property, plant and equipment

Property, plant and equipment are initially measured at the acquisition price or production cost and subsequently reduced by the corresponding accumulated depreciation and impairment losses, as the case may be, in accordance with the criteria mentioned in the previous section.

The conservation and maintenance costs of the different items which make up property, plant and equipment are charged to the income statement in the year in which they occur. On the other hand, amounts invested in improvements which contribute to increasing capacity or efficiency or extending the useful life are recorded as a greater cost of those assets.

The Company depreciates property, plant and equipment following the straight line method, applying annual depreciation percentages which are calculated based on the estimated useful life of the respective assets, as shown in the following table:

	Estimated years of useful life
Aircraft components	3 – 6 (*)
Handling equipment	3 - 10
Information processing equipment	5 - 7
Plant and machinery	8 - 10
Furniture and equipment	8 - 10
Other facilities and equipment	9 - 10

(*) According to the useful life of the leasing agreement.

5.3 Leases

The leases in which the agreement substantially transfers all the risks and benefits inherent to ownership of the assets to the Company are classified as financial leases, while the other leases are classified as operating leases. The Company does not have any financial leases as at 31 December 2009.

The Company has been assigned the right to use certain assets under operating lease agreements, mainly aircraft and offices.

Operating leases

The expenses arising from operating lease agreements are charged to the income statement in the year in which they accrue and mainly correspond to aircraft leases paid in dollars.

Any amount collected or paid upon taking out an operating lease is treated as an advance collection or payment which is allocated to the income statement over the lease period as the benefits of the leased asset are assigned or received.

Future operating lease payments mainly depend on the number of the Company's aircraft as well as the price of the dollar (see Note 8).

The incentives granted to date to the Company by the aircraft manufacturer Airbus are charged to the heading "Financial Investments-Loans to third parties" (see Note 9.1) and are credited to the heading "Subsidies, donations and bequests received" (see Note 5.14) and consist of letters of credit received which will be paid through training of crew and mechanics and the acquisition of rotable components and consumables necessary for operating the aircraft. The Company charges the services received to expenses, recognising the amount corresponding to subsidies as income.

5.4. Financial Instruments

5.4.1. Financial assets

Classification

The financial assets held by the company are classified in the following categories:

- Loans, deposits and other receivables: financial assets arising from the sale of goods or provision of services as part of the company's operations (basically deposits given to aircraft lessors), or those which do not have a commercial origin and are not equity instruments or derivatives and from which the amounts received are fixed or determinable and which are not traded on an active market.

- Held-to-maturity investments*:* debt securities with fixed or determinable payments and fixed maturity date, which are traded on an active market and for which the Company declares its intention and ability to hold them up to the maturity date.

Initial measurement

Financial assets are initially recorded at the fair value of the consideration plus the directly attributable transaction costs.

Subsequent measurement

Loans, receivables and investments held to maturity are valued at their amortised cost.

At least at the balance sheet date, the Company performs an impairment test for the financial assets which are not recorded at fair value. There is considered to be objective evidence for impairment if the recoverable value of the financial asset is lower than its carrying amount. When this occurs, the impairment is recorded in the income statement.

Specifically, and with respect to the value adjustments for trade and other receivables, the criteria used by the Company to calculate the corresponding value adjustments, as the case may be, is to analyse the age of the receivables and to apply an impairment to those outstanding receivables with a significant age or whose recovery is doubtful.

The Company de-registers financial assets when they expire or the right over the corresponding cash flows of the financial assets are assigned and the risks and benefits inherent to their ownership have been transferred, such as the firm sale of assets, assignments of commercial loans in factoring transactions in which the company does not retain any credit or interest rate risk or the sales of financial assets with a repurchase agreement at their fair value.

On the other hand, the Company does not de-register financial assets, and recognises a financial liability for an amount equal to the consideration received, in assignments of financial assets in which it substantially retains the risks and benefits inherent to ownership, such as forfeiting, factoring with recourse, or the sale of financial assets with repurchase agreements at a fixed price or at the sale price plus interest.

5.4.2. Financial liabilities

Financial liabilities are the Company’s payables which result from the purchase of goods and services for the company's operations, and also those which having a non-commercial origin, cannot be considered as derivative financial instruments.

Payables are initially measured at the fair value of the consideration received, adjusted for the directly attributable transaction costs. These liabilities are subsequently measured according to their amortised cost.

The Company de-registers financial liabilities when the obligations which they have generated expire.

5.4.3. Equity instruments

An equity instrument represents a residual holding in the Company's Equity, once all its liabilities have been deducted.

Capital instruments issued by the Company are recorded in Net Equity at the amount received, net of issue costs.

The treasury shares which the Company acquires during the year are recorded directly as a lower value of Net Equity at the value of the consideration received. The results arising from the purchase, sale, issue or amortisation of treasury shares are directly recorded in Net Equity, with no result being recorded in the Income statement.

5.4.4. Derivative financial instruments

The company uses derivative financial instruments to hedge against the risks which its activities, operations and future cash flows are exposed to. These risks are basically variations in exchange rates and fuel prices. Within the context of these transactions, the Company uses hedging instruments (see Note 15).

For these instruments to be classified as hedging instruments for accounting purposes, they are initially designated as such by documenting the hedging relationship. Similarly, the Company verifies, initially and periodically throughout its life (at least at the end of each accounting period) that the hedging relationship is efficient, that is, that it is prospectively expected that the changes in the hedged item's fair value or cash flows (applicable to the hedged risk) are almost fully offset by the hedging instrument and that, retrospectively, the results of the hedging have varied within a range of 80% to 125% with respect to the result of the hedged item.

The Company applies cash flow hedging. In this type of hedging, the gain or loss of the hedging instrument which has been determined as an efficient hedge is temporarily recorded in Net Equity and allocated to the income statement in the period in which the hedged item affects the results, unless the hedging corresponds to a planned transaction which results in recognition of a non-financial asset or liability. In this case, the amounts recorded in Net Equity will be included in the cost of the asset or liability when it is acquired or assumed.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss corresponding to the hedging instruments recorded in net equity remains in net equity until the forecast transaction takes place. When a forecast hedging transaction is no longer expected to occur, the cumulative net gain or loss recorded in net equity is transferred to the profit or loss for the year.

5.5. Inventories

Inventories are mainly materials for aircraft maintenance and are measured at their acquisition price, production costs or net realisable value, whichever is lower. Commercial discounts, reductions obtained, other similar items and interest added to the nominal amount of the debt are deducted when determining the acquisition price.

When assigning value to its inventories, the Company uses the average weighted cost method.

The Company makes the appropriate value adjustments, and recognises them as an expense in the income statement when the net realisable value of inventories is lower than their acquisition price (or their production cost).

5.6. Classification between current and non-current

Current assets and liabilities make up those items which the company expects to sell, pay, consume or realise in the course of a normal operating cycle. They also includes those assets and liabilities whose maturity, disposal or realisation is expected to occur within a period of one year, as well as those classified as held for trading (except long-term derivatives) and cash and cash equivalents. Other assets are classified as non-current.

5.7. Foreign currency transactions

The functional currency used by the Company is the euro. Consequently, transactions in currencies other than the euro are considered as denominated in foreign currencies and are recorded according to the exchange rate in force on the transaction date.

At each balance sheet date, the monetary assets and liabilities denominated in foreign currencies are converted by applying the exchange rate applicable at that date. Any gains or losses are directly allocated to the income statement in the year in which they take place.

5.8. Corporation tax

The expense or revenue for corporation tax includes the part relating to the expense or revenue for current tax and the part corresponding to the expense or revenue for deferred tax.

The Company pays corporation tax in a financial year at the current tax rate on profit from the business. Deductions and other tax advantages in the tax payments, excluding withholdings and interim payments, as well as tax losses to be offset from previous years which are effectively applied in this year, lead to a lower amount for current tax.

The expense or revenue for deferred tax corresponds to recognition and cancellation of deferred tax assets and liabilities. These include the time differences which are identified as those amounts which are expected to be paid or received arising from differences between the carrying amount of the assets and liabilities and their tax value, as well as tax-loss carryforwards to be offset and credits for tax deductions which have not been applied. These amounts are recorded by applying the tax rate at which the corresponding time or credit differences are expected to be recovered or paid.

Deferred tax liabilities cover all taxable temporary differences, except those arising from the initial recognition of goodwill and other assets and liabilities in a transaction, which does not affect the taxable profit or the accounting profit and is not a business combination. It also covers temporary taxable differences associated with investments in subsidiaries, associate companies and joint ventures in which the Company can control the time of reversal, which is unlikely to occur in the foreseeable future.

Deferred tax assets are only recognised to the extent that it is probable that the Company will have sufficient future taxable profit against which the temporary differences can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity accounts are also recorded with a balancing entry in net equity.

Recorded deferred tax assets are reviewed at each balance sheet date in order to make the appropriate adjustments in accordance with the doubts about their future recovery. Similarly, the deferred tax assets not recorded on the balance sheet are reviewed at each balance sheet date and are recognised if it becomes probable that they will be recovered with future tax profits.

5.9. Revenue and expenses, and short term accrual accounts

Revenue and expenses are allocated based on the accrual principle, that is, when the real flow of goods and services that they represent takes place, regardless of the moment at which the resulting monetary or financial flow takes place. The Company recognises revenue for air transport services when the corresponding flight takes place. This revenue is measured at the fair value of the consideration received, after subtracting trade discounts and taxes.

The amount received from customers as advance payments for future flights for tickets which have been issued is recorded under the heading "Short-term accruals and deferred income" under liabilities in the accompanying balance sheet.

The heading "Advance payments from customers" records the payments received for bookings and advance payments for certain tickets which have not yet been issued.

Interest received from financial assets is recorded using the effective interest rate method. Dividends are recorded when the right of the shareholder to receive them is declared.

5.10. Provisions and contingencies

On preparing the accompanying financial statements, the Company's Directors differentiate between:

- Provisions: Credit balances covering current obligations arising as a result of past events which will probably give rise to an outflow of resources, but for which the amount and/or time has not been determined.

- Contingent liabilities: Possible obligations arising from past events which will only be materialised if one or more future events outside the Company's control takes place.

The financial Statements include all the provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, although they are disclosed in the Notes, if they are considered as remote (see Note 12).

Provisions are valued using the best current estimates possible of the amount necessary to settle or transfer the obligation, bearing in mind available information about the event and its consequences. Adjustments resulting from updating the aforementioned provisions are recorded as a financial expense as they accrue.

The compensation to be received from a third party on settling the obligation, provided there are no doubts that this refund will be received, is recorded as an asset, unless there is a legal obligation which externalises part of the risk, and pursuant to which the Company is not liable. In this situation, the compensation is used to estimate, as the case may be, the amount of the corresponding provision.

Provisions for scheduled aircraft maintenance

The expense arising from scheduled maintenance checks (general aircraft and engine checks) is accrued based on the flight hours/cycle in accordance with the clauses contained in the aircraft lease agreements.

The Company records the expense for the aforementioned commitment based on flight hours/cycles. The amount of the provision for aircraft maintenance is calculated according to the approved maintenance schedule and based on flight hours/cycles or days passed, bearing in mind the moment of the aircraft's use cycle, and based on the estimated cost for the next scheduled check. Adjustments in provisions for maintenance arising from changes in the payment amount or time structure are recorded in the income statement prospectively.

For some of the agreements entered into by the Company and aircraft lessors, most of the costs of these checks are paid periodically to the lessor. The Company pays for these periodic checks through the lessor refunding part of the amounts which the Company has paid in advance.

The Company considers the monthly amounts paid to lessors as advance payments, recording them under the heading "Long-term financial investments-loans to third parties". The Company recognises the corresponding estimated cost for the checks under the heading "Long-term provisions" based on the approved maintenance schedule for each aircraft and the flight hours/cycles or days passed.

5.11. Severance pay

Under current legislation, the Company is required to make severance payments to those employees dismissed under certain conditions. Therefore, severance pay which can be given a fair value is recorded as an expense in the year in which the decision is adopted and in which valid expectation of the dismissal is created.

5.12. Balance sheet environmental items

Environmental assets are those which are used by the Company over the long-term. Their main purpose is to minimise environmental impact and to protect and improve the environment, including a reduction or elimination of future pollution.

Given the Company's activity, there are no material environmental items. The Company's Directors do not consider that there are significant environmental risks.

5.13. Pension commitments and other obligations with employees

Pension obligations

The Company has assumed certain commitments with its employees which can be classified as defined contribution schemes. However, the impact of these commitments with employees is not material.

The Company records the contributions to be made to the defined contribution scheme while employees offer their services. The amount of accrued contributions is recorded as an expense under employee remuneration.

The Company has outsourced these commitments as required by current legislation.

Share-based compensation

On 22 June 2007, the General Meeting of Shareholders approved two new incentive plans: “SAR Plan” and “Value Creation Plan”, as well as specific agreements for certain executives, whose remuneration is also based on shares in the Company. However, the impact of these incentive plans is not material.

According to the plan's characteristics, the share options are consolidated when employees complete a specific period of time in the company and when certain events provided for in the plan occur.

The services received are recorded as a personnel expense in the income statement as they accrue. Accrual is based on the best estimates of the employees who will obtain the options and the probability that the events will take place.

5.14. Subsidies, donations and bequests

The Company uses the following criteria to account for subsidies, donations and bequests received:

- Non-refundable subsidies, donations and capital bequests: These are recorded at the fair value of the amount or asset granted, based on whether it is monetary or not, and are allocated to profit (loss) in proportion to the amortisation of the subsidised items in the year or, as the case may be, at the time of their disposal or impairment adjustment, except for those received from shareholders or owners, which are directly recorded under capital and reserves and do not constitute income.

- Refundable subsidies: While they remain refundable, they are recorded as liabilities:

- Operating subsidies: These are credited to the profit (loss) at the time they are granted except if they are used for financing the operating deficit of future years, in which case they are allocated in those years. If they are granted in order to finance specific expenses, they will be allocated as the financial expenses accrue.

5.15. Transactions with related parties

The Company considers IBERIA, Líneas Aéreas de España, S.A. and its subsidiaries as related companies.

The Company performs all its transactions with related parties at arm’s length. The Company's Directors consider that there are no significant risks for this item which may result in material liabilities in the future.

6. Intangible fixed assets

Movements under this section of the balance sheets for 2009 and 2008, as well as the most significant information which affects this heading are as follows:

2009

	Thousands of Euros				
	01/01/2009	Additions from the merger	Additions	Disposals	31/12/2009
Goodwill (Note 3)					
Cost	-	15,857	-	-	15,857
Accumulated amortisation	-	-	-	-	-
	-	15,857	-	-	15,857
Computer software					
Cost	11,227	7,895	2,440	(7,873)	13,689
Accumulated amortisation	(3,418)	(2,581)	(2,425)	3,229	(5,195)
	7,809	5,314	15	(4,644)	8,494
Trademarks and patents					
Cost	-	332	-	(332)	-
Accumulated amortisation	-	(185)	(31)	216	-
	-	147	(31)	(116)	-
Slots					
Cost	-	36,733	-	-	36,733
Accumulated amortisation	-	-	-	-	-
	-	36,733	-	-	36,733
Total:					
Cost	11,227	60,817	2,440	(8,205)	66,279
Accumulated amortisation	(3,418)	(2,766)	(2,456)	3,445	(5,195)
Total	**7,809**	**58,051**	**(16)**	**(4,760)**	**61,084**

2008

	Miles de Euros			
	01/01/2008	Additions	Transfers	31/12/2008
Computer software				
Cost	7,703	3,390	134	11,227
Accumulated amortisation	(1,465)	(1,953)	-	(3,418)
	6,238	1,437	134	7,809
Total:				
Cost	7,703	3,390	134	11,227
Accumulated amortisation	(1,465)	(1,953)	-	(3,418)
Total	**6,238**	**1,437**	**134**	**7,809**

Additions from the merger in 2009 correspond to the assets at fair value incorporated following the merger with the company Clickair, S.A. for 51,428 thousand euros plus the costs arising from the merger of 6,623 thousand euros (see Note 3). The other additions for 2009 mainly correspond to the acquisition of management computer software developed by third parties for 2,440 thousand euros.

Disposals in 2009 mainly correspond to assets which are no longer used following the Company's merger, for 4,760 thousand euros, which generated losses and gains for disposals of 4,717 and 177 thousand euros respectively.

Under the heading "Other intangible fixed assets", the Company records 36,733 thousand euros as the fair value of the slots resulting from the merger with Clickair, S.A. The Company's Directors have considered the useful life for the slots to be indefinite, and as such they are subject to the corresponding annual impairment test, as indicated in Note 5.1.

As at 31 December 2009, the Company has fully amortised computer software still in use for an amount of 252 thousand euros (56 thousand euros as at 31 December 2008).

7. Property, plant and equipment

Movements under this heading of the balance sheets for 2009 and 2008, as well as the most significant information which affects this heading are as follows:

2009

	Thousands of Euros				
	01/01/2009	Additions from the merger	Additions	Disposals	31/12/2009
Aircraft components:					
Cost	1,840	8,462	1,158	(43)	11,417
Accumulated depreciation	(984)	(3,637)	(1,165)	43	(5,743)
	856	4,825	(7)	-	5,674
Handling equipment:					
Cost	483	-	-	(35)	448
Accumulated depreciation	(200)	-	(78)	12	(266)
	283	-	(78)	(23)	182
Plant and machinery:					
Cost	977	150	9	-	1,136
Accumulated depreciation	(207)	(22)	(104)	-	(333)
	770	128	(95)	-	803
Furniture and equipment:					
Cost	698	86	2	-	786
Accumulated depreciation	(201)	(15)	(72)	-	(288)
	497	71	(70)	-	498
Other facilities and equipment:					
Cost	1,150	9	2	(9)	1,152
Accumulated depreciation	(249)	(3)	(116)	4	(364)
	901	6	(114)	(5)	788
Information processing equipment:					
Cost	487	667	26	(8)	1,172
Accumulated depreciation	(260)	(162)	(145)	-	(567)
	227	505	(119)	(8)	605
Total:					
Cost	5,635	9,374	1,197	(95)	16,111
Accumulated depreciation	(2,101)	(3,839)	(1,680)	59	(7,561)
Total	**3,534**	**5,535**	**(483)**	**(36)**	**8,550**

2008

	Miles de Euros			
	01/01/2008	Additions	Disposals	31/12/2008
Aircraft components:				
Cost	1,328	512	-	1,840
Accumulated depreciation	(750)	(234)	-	(984)
	578	278	-	856
Handling equipment:				
Cost	483	-	-	483
Accumulated depreciation	(129)	(71)	-	(200)
	354	(71)	-	283
Plant and machinery:				
Cost	865	112	-	977
Accumulated depreciation	(100)	(107)	-	(207)
	765	5	-	770
Furniture and equipment:				
Cost	672	26	-	698
Accumulated depreciation	(136)	(65)	-	(201)
	536	(39)	-	497
Other facilities and equipment:				
Cost	1,017	133	-	1,150
Accumulated depreciation	(133)	(116)	-	(249)
	884	17	-	901
Information processing equipment:				
Cost	600	21	(134)	487
Accumulated depreciation	(164)	(96)	-	(260)
	436	(75)	(134)	227
Total:				
Cost	4,965	804	(134)	5,635
Accumulated depreciation	(1,412)	(689)	-	(2,101)
Total	**3,553**	**115**	**(134)**	**3,534**

Additions from the merger in 2009 correspond to the assets at fair value included following the merger with the company Clickair, S.A. for 5,535 thousand euros (see Note 3).

The other additions in 2009 mainly correspond to adaptations made to the Company's aircraft aimed at increasing their productivity.

As at 31 December 2009 and 2008, the Company had property, plant and equipment which was fully depreciated and which continued in use as shown in the following table (breakdown in thousands of euros):

Description	Carrying Amount (Gross) 31/12/2009	31/12/2008
Furniture, equipment and other items	30	30
Aircraft components	705	598
Information processing equipment	104	3
Total	**839**	**631**

The Company's policy is to take out insurance policies to cover the possible risks which the different property, plant and equipment items are exposed to. As at 31 December 2009, there is no coverage deficit related to the aforementioned risks.

8. Leases

The Company's most significant operating lease agreements correspond to aircraft operating leases.

As at the 2009 and 2008 balance sheet dates, the Company had agreements with aircraft lessors for the following minimum lease payments according to the agreements currently in force, without taking into account the impact of other expenses, future Consumer Price Index increases or future income updates contractually agreed and considering the dollar/euro exchange rate at the 2009 and 2008 balance sheet dates respectively:

Operating leases	Thousands of Euros	
	Nominal value	
	31/12/2009	31/12/2008
Less than one year	132,209	52,287
Between one and five years	373,840	189,301
More than five years	88,896	21,191
Total	**594,945**	**262,779**

The amount of contingent payments recorded as expenses in 2009 in 2008 is not material.

The total amount of aircraft lease and sublease payments recorded as expenses and revenue in 2009 and 2008 are as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Lease expenses	73,672	66,600
Sublease income	2,689	9,584

The average number of aircraft operating in 2009 was 26 (with an average of 21 aircraft in 2008), and as at 31 December 2009, the company had 37 leased aircraft (18 aircraft as at 31 December 2008).

9. **Financial investments (long and short-term)**

9.1. Long-term financial investments

Movements under long-term financial investments over 2009 and 2008 in thousands of euros are as follows:

2009

	Thousands of Euros					
Categories	01/01/2009	Additions from merger	Additions	Other additions (Note 12.1)	Disposals	31/12/2009
Loans, deposits and other receivables	19,519	36,395	5,360	24,366	-	85,640
Held-to-maturity investments	5,319	1,525	-	-	(6,844)	-
Total	**24,838**	**37,920**	**5,360**	**24,366**	**(6,844)**	**85,640**

2008

	Thousands of Euros			
Categories	01/01/2008	Additions	Disposals	31/12/2008
Loans, deposits and other receivables	21,160	490	(2,131)	19,519
Held-to-maturity investments	4,741	2,051	(1,473)	5,319
Total	**25,901**	**2,541**	**(3,604)**	**24,838**

The maturity breakdown of the items which make up the heading "Long-term financial investments" is as follows:

2009

	Thousands of Euros					
	2011	2012	2013	2014	2015 and following years	Total
Loans, deposits and other receivables	38,355	15,732	6,554	10,395	14,604	85,640
Total	**38,355**	**15,732**	**6,554**	**10,395**	**14,604**	**85,640**

2008

	Thousands of Euros				
	2010	2011	2012	2013 and following years	Total
Loans, deposits and other receivables	6,465	7,285	2,511	3,258	19,519
Held-to-maturity investments	-	-	-	5,319	5,319
Total	**6,465**	**7,285**	**2,511**	**8,577**	**24,838**

"Loans, deposits and other receivables" basically cover the advance payments made to aircraft lessors for the maintenance schedule of leased aircraft for 84,292 thousand euros (see Note 12) and the credit given by Airbus for 1,348 thousand euros (see Note 5.14).

9.2. Short-term financial investments

The balance of the heading "Short-term financial investments" at the balance sheet dates of 2009 and 2008 is as follows:

Classes / Categories	Thousands of Euros							
	Short-term financial investments							
	Debt securities		Other financial assets		Derivatives (Note 15)		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Held-to-maturity investments	-	2,973	22,256	18,811	-	-	22,256	21,784
Loans, deposits and other receivables	-	-	2,866	-	-	-	2,866	-
Derivatives (Note 15)	-	-	-	-	2,685	331	2,685	331
Total	**-**	**2,973**	**25,122**	**18,811**	**2,685**	**331**	**27,807**	**22,115**

The heading "Held-to-maturity investments" corresponds to time deposits in banking institutions made in order to obtain a return on available cash surpluses, the amount of which does not materially differ from their fair value.

As at 31 December 2009, the part of these deposits which is pledged, and therefore, not available, is 20,987 thousand euros (21,486 thousand euros as at 31 December 2008), as aircraft lease and maintenance guarantees.

9.3. Cash and cash equivalents

The heading "Cash and cash equivalents" records all the cash deposited in sight current accounts together with the sight bank deposits which are convertible into cash, have no restrictions and which have a maturity of less than three months when acquired.

As at 31 December 2009, a total of 7,564 thousand euros recorded under the heading "Cash" in the accompanying balance sheet was placed in guarantee of aircraft lease and maintenance with ground handling companies, airports and for fuel purchases.

For the purposes of the cash flow statement, as at 31 December 2008, the Company considered as cash and cash equivalents the amount recorded under the heading "Cash and cash equivalents", as well as the amount recorded under "Short-term financial assets - Debt securities and Other financial assets" in the accompanying balance sheet. As at 31 December 2009, the Company only considered as cash and cash equivalents the amount recorded under "Cash and cash equivalents".

9.4. Information about the risk type and level of financial instruments

The Company's financial risk is managed by the Finance Department and the Board of Directors, which have established the mechanisms necessary to control exposure to changes in exchange rates and fuel prices, as well as credit and liquidity risks. The main financial risks which the Company is exposed to are indicated below:

Credit risk

Except for the transactions performed to hedge against exchange rate risk and the balances payable to aircraft lessors, the Company has no significant credit risk concentrations. The transactions with currency derivatives are only executed with financial institutions with a high credit rating. Sales to retail customers are made in cash or through credit cards. Travel agency sales are also made in cash or through credit cards.

Liquidity risk

The Company carries out prudent management of liquidity risk based on holding enough cash and tradable securities, the availability of committed credit financing and sufficient capacity to liquidate market positions.

Market risk (including price, exchange rate and interest rate risks)

The Company is exposed to price risk from aviation fuel. The Company uses commodity derivative instruments for the main fuel components in order to hedge against the risk of fluctuations in future prices. The price risk management policy consists of hedging a specific percentage of Jet Fuel, the fuel used by aircraft (Note 15).

The Company is exposed to exchange-rate risks for currency transactions, mainly in dollars. Exchange-rate risk arises from future commercial transactions, such as the purchase of fuel or the costs associated with aircraft operating leases. In order to control the exchange-rate risk which arises from future commercial transactions denominated in dollars, the Company uses currency forward contracts. The Company's Finance Department is responsible for managing the net position in dollars using derivative financial instruments.

The Company's risk management policy is based on using hedging instruments for a defined percentage of its currency needs. Through budget management, the Company is able to determine the dates of future payments in dollars to a high degree of accuracy. Therefore, almost all the planned payments in dollars rate as firm commitments or highly probable forecast transactions for the purposes of hedge accounting.

The Company holds assets with short-term returns invested in repos with a yield in accordance with financial markets. Revenues and cash flows from the Company's ordinary activities are mostly independent of variations in market interest rates.

The Company's exposure to interest rate risk is not considered material given the low level of indebtedness.

The Company's Directors ratify the main decisions regarding the Company's hedging policies.

10. <u>Inventories</u>

These mainly cover spare parts and other materials for aircraft maintenance.

Movements in impairment adjustments under the heading "Inventories" in the accompanying balance sheet are as follows:

	Thousands of Euros		
	01/01/2009	Additions	31/12/2009
Impairment of inventories	-	(2,000)	(2,000)

The value adjustment recorded for inventories corresponds to the Company's estimate of their non-recoverable value resulting from having outsourced the service (see Note 14).

The Company has taken out various insurance policies to cover the risks which inventories are subject to. The cover offered by these policies is considered sufficient.

11. <u>Net Equity</u>

11.1. Subscribed capital

On 5 May 2009, the Company's General Meeting of Shareholders approved increasing the share capital by €14,952,259, plus a share premium (see Note 11.2), by issuing 14,952,259 new shares with a par value of 1 euro each, of the same class and series as those that were in circulation. Subscription was reserved to CLICKAIR shareholders, without the existence of pre-emption rights, in accordance with the provisions of Section 159.4 of the Spanish Public Limited Companies Act.

As at 31 December 2009, the Company's share capital stood at €29,905,518, represented by 29,905,518 shares, each with a par value of 1 euro, all of the same class and fully subscribed and paid up.

The Company's shares are admitted for trading on the Continuous Market of Spanish stock exchanges, all with the same voting and economic rights.

According to the information available to the Company, as at 31 December 2009 and 2008, the shareholders who have a stake greater than 10% of the share capital are as follows.

	Shareholding percentage	
Shareholder	31/12/2009	31/12/2008
IBERIA, Líneas Aéreas de España, S.A.	45.85	-
Intro Magama, S.L.	-	26.84

11.2. Share premium

As a result of the merger with Clickair, S.A. (see Note 3), together with the capital increase mentioned above, the share premium was increased by 65,640 thousand euros.

As at 31 December 2009, this reserve is freely available, except for 82,127 thousand euros (102,343 thousand euros as at 31 December 2008), broken down as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Reserves and treasury shares	6,227	6,227
Retained earnings	104,373	112,911
Loss for the year	(27,777)	(8,539)
Adjustments for changes in value and subsidies, donations and bequests received	(1,092)	(8,256)
Goodwill reserve	396	-
Total unavailable	**82,127**	**102,343**

11.3. Other reserves

The breakdown of "Other reserves" as at 31 December 2009 and 2008 is as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Reserves for first application	(6,227)	(6,227)
Other reserves	713	713
Total	**(5,514)**	**(5,514)**

11.4. Legal Reserve

In compliance with the Consolidated Text of the Public Limited Companies Act, 10% of the profit for the year must be allocated to the legal reserve until said reserve reaches at least 20% of the share capital. The part of the balance which exceeds 10% of the already increased capital may be used for further capital increases. Except for the above-mentioned purpose, and providing it does not exceed 20% of the share capital, this reserve may only be allocated to offset losses providing there are no other sufficient reserves available for this purpose.

As at 31 December 2009 and 2008, the Company has not allocated this reserve as it has losses from prior years.

11.5. Treasury shares

In 2009, the Company has not acquired or transferred treasury shares.

As at 31 December 2009 and 2008, the Company has treasury shares as shown in the following table:

			Euros		Thousands of Euros
	No. of Shares	Percentage of total	Par Value	Average acquisition price	Total acquisition price
Treasury shares	216,083	0.72%	1	3.3	713

The Company's Board of Directors has not taken a decision about the final use planned for the aforementioned treasury shares.

11.6 Subsidies

The information on the subsidies received by the Company, which form part of the Net Equity, as well as the resulting gains (losses) allocated to the income statement, is as follows:

2009

		Thousands of Euros		
Company	Type	01/01/2009	Disposals	31/12/2009
Airbus (Note 5.14)	Private	2,394	(1,480)	914

2008

		Thousands of Euros		
Company	Type	01-01-08	Disposals	31-12-08
Airbus	Private	2,660	(266)	2,394

As at 31 December 2009 and 2008, the Company had met all the requirements necessary to receive and enjoy the aforementioned subsidies.

12. Provisions and contingencies

12.1. Provisions

The breakdown of provisions at the balance sheet dates of 2009 and 2008, as well as the main movements recorded during the year, are as follows:

2009

Long-Term Provisions	Thousands of Euros					
	01/01/2009	Additions from merger	Other additions (Note 9.1)	Allocations	Applications	31/12/2009
Provisions for scheduled maintenance	19,680	36,178	24,366	41,394	(12,199)	109,419
Other provisions	1,321	-	-	1,085	-	2,406
Total long-term provisions	**21,001**	**36,178**	**24,366**	**42,479**	**(12,199)**	**111,825**

2008

Long-Term Provisions	Thousands of Euros				
	01-01-08	Allocations	Variations from updating	Applications	31-12-08
Provisions for scheduled maintenance	13,925	16,535	(3,240)	(7,540)	19,680
Other provisions	2,206	3	-	(888)	1,321
Total long-term provisions	**16,131**	**16,538**	**(3,240)**	**(8,428)**	**21,001**

Provisions for scheduled maintenance

This account includes the provision to cover future aircraft checks, as part of the scheduled maintenance, to be performed before the aircraft are returned as stipulated in the lease agreements (see Note 5.10).

Additions from the merger correspond to the provisions at fair value included following the merger with the company Clickair, S.A. for 36,178 thousand euros (see Note 3).

"Other additions" correspond to deposits paid in previous years to the aircraft lessors for the maintenance performed with group companies within the context of the new maintenance agreement signed by the Company following the merger (see Note 14).

Allocations in the year were charged to the income statement under the heading "Other operating expenses - aircraft maintenance" (see Note 17.6).

The applications for the year correspond to the cost of the checks performed in 2009, as well as the amount attributable to the aircraft returned during the year.

Other provisions

This heading includes the amounts which are estimated must be paid as a consequence of the resolution of certain disputes pending a firm legal ruling, as well as other lesser provisions.

The Company's Directors estimate that the results of the aforementioned disputes will not lead to additional liabilities for the Company other than those for which a provision has been allocated in the accompanying balance sheet.

12.2. Contingencies

The Company's most significant contingencies as at 31 December 2009 are as follows:

Significant civil legal proceedings

On 10 November 2006, the company Aeroporti di Roma Handling SpA ("ADRH") brought an action against Aviapartner Handing SpA and Vueling Airlines, S.A. before the *Tribunal Civile di Roma* [Civil Court of Rome] for damages suffered as a consequence of the alleged early termination of the agreement between ADRH and Aviapartner for the provision of ramp services in Rome airport. The joint and several claim against Aviapartner and the Company is for 2,237 thousand euros. Aviapartner has signed a letter in favour of the Company undertaking to hold the latter harmless against any possible ruling. Consequently, the company has not allocated any provision for this item.

Disciplinary proceedings brought by the Catalan Consumer Affairs Agency

Disciplinary proceedings brought by the Catalan Consumer Affairs Agency on 9 September 2008 relating to certain clauses of the Company's transport conditions published on its website. The penalty which could be imposed is between a minimum of 3 and a maximum of 601 thousand euros for each one of the two charges included in the proceedings. The Company has filed submissions opposing the position maintained by the Agency. The ruling from these proceedings is not expected to result in material liabilities. Therefore, the Company has not allocated any provision for this item.

Similarly, the Company has made the best possible estimate in order to quantify the potential impact of the consumer affairs proceedings before the Regional Authorities.

In addition, there are other less significant disputes and proceedings which the Company is aware of, and which are not expected to lead to material liabilities. At any event, the Directors have allocated what they consider to be sufficient amounts to the provisions.

13. Financial liabilities

The balances of the headings "Short-term liabilities" and Long-term liabilities" at the 2009 and 2008 balance sheet dates are as follows:

Classes	Thousands of Euros									
	Short-Term Financial Instruments						Long-Term Financial Instruments			
	Debts with Credit Institutions		Derivatives and Other Items		Total		Derivatives and Other Items		Total	
Categories	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Payables	12,966	-	-	-	12,966	-	-	-	-	-
Derivatives (Note 15)	-	-	1,952	2,338	1,952	2,338	2,570	-	2,570	-
Total	**12,966**	**-**	**1,952**	**2,338**	**14,918**	**2,338**	**2,570**	**-**	**2,570**	**-**

The Company has granted credit policies, referenced to market interest rates, with the following limits:

	Thousands of Euros			
	31/12/2009		31/12/2008	
	Limit	Amount Drawn down	Limit	Amount Drawn down
Credit policies	15,000	12,966	-	-
Total	**15,000**	**12,966**	**-**	**-**

14. Related party transactions and balances

The breakdown of related party transactions in 2009 is as follows:

Group Company	Thousands of Euros Services provided	 Services provided
IBERIA, Líneas Aéreas de España, S.A.	57,878	38,080
Total	**57,878**	**38,080**

The services provided to related companies mainly cover sales performed through IBERIA's distribution channel, while the services received mainly cover maintenance tasks for the aircraft fleet and ground handling services based on agreements signed over the year.

The related party balances are as follows:

Related company	Thousands of Euros Debit balances	 Credit balances
IBERIA, Líneas Aéreas de España, S.A.	1,716	10,641
Total	**1,716**	**10,641**

As at 31 December 2008, there were no balances or transactions with related parties.

The Company performs all its transactions with related parties at arm’s length. The Company's Directors consider that there are no significant risks for this item which may result in material liabilities in the future.

15. <u>Derivative financial instruments</u>

The Company uses derivative financial instruments on the over-the-counter market with national and international financial institutions with a high credit rating.

These instruments are used to reduce the impact of an unfavourable development in the exchange rate of the US dollar, which must be used for fuel purchases, aircraft lease payments and the corresponding insurance policies.

Similarly, in order to reduce the potential negative impact on the Company’s profit of fluctuations in Jet Fuel prices, in 2009 and 2008 the Company used fixed-price swaps, referenced to the price of mT of Jet Fuel Cif NWE and to the price of a barrel of Brent oil.

2009

a) Exchange Rate Derivatives

In order to determine the fair value of exchange rate derivatives (forward exchange contracts), the Company uses the spot rate of the euro against the US dollar, as well as the forward points for the two currencies involved and, using discounted cash flow, determines the value of the contracted derivatives.

In 2009, the Company had hedged against the exchange rate risk of part of it transactions denominated in US dollars.

The derivatives in effect as at 31 December 2009 and their fair values on said date are as follows:

Currency	Nominal 31/12/2009 (Thousands of dollars)	Fair Value Assets: Short-term financial investments (Thousands of Euros)	Fair Value Liabilities: Long- and short-term liabilities (Thousands of Euros)
Forwards USD 1st Half-year 2010	139,444	1,994	1,030
Forwards USD 2nd Half-year 2010	28,378	-	777
Forwards USD 2011 and subsequent years	116,322	-	2,570
Total	**284,144**	**1,994**	**4,377**

The net fair value as at 31 December 2009 of the exchange rate derivatives (forwards) is negative for 2,383 thousand euros, which is recorded in Net Equity, net of the tax effect.

The forward exchange contracts in US dollars ensure the purchase of US dollars at prices which vary between 1.3696 and 1.5108 USD/EUR

As at 31 December 2009, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Accounting Plan, all the forwards for US dollars in effect at that date, as cash flow hedges for payment of fuel purchases, payments of aircraft leases and the corresponding insurance policies, which are highly probable future transactions. The relationship of the designated cash flow hedges with the forward exchange contracts is considered highly effective. Therefore, the Company has recorded their fair value in the Net Equity.

The effectiveness of all the hedging instruments for accounting purposes has been verified. Therefore, no amount has been recorded in the 2009 income statement (nor in the 2008 income statement) for any inefficiency.

b) Fuel derivatives

The Company has used derivative financial instruments on the price of the mT of Jet Fuel Cif NWE (commodities) with the aim of hedging against fluctuations in the price of Jet Fuel referenced to fuel purchases.

The commodity derivatives in effect as at 31 December 2009 and their fair values on said date are as follows:

	mT 31/12/2009	Fair Value Assets: Short-term financial investments (Thousands of Euros)	Fair Value Liabilities: Short-term liabilities (Thousands of Euros)
Swaps 1st Half-year 2010	68,044	691	145
Total	**68,044**	**691**	**145**

The net fair value as at 31 December 2009 of the mT Jet Fuel Cif NWE swaps is a positive amount of 546 thousand euros, which is recorded in Net Equity, net of the tax effect.

Consequently, the Company pays a fixed rate of between 654 and 726 USD/mT for the swaps relating to Jet Fuel Cif NWE.

As at 31 December 2009, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Accounting Plan, all the Jet Fuel Cif NWE swaps as cash flow hedges in US dollars, resulting from fuel purchases referenced to Jet Fuel.

The effectiveness of all the hedge accounting has been verified. Therefore, no amount has been recorded in the 2009 income statement (or in the 2008 income statement) for ageing inefficiency.

c) Impact of derivatives on net equity

The impact of the aforementioned derivatives on net equity as at 31 December 2009 was as follows (in thousands of euros):

Net of tax effect	Exchange-rate derivatives	Fuel derivatives	Change in value of derivatives following merger	Total
Balance at 01/01/09	**7,499**	**(1,637)**	**-**	**5,862**
All income and expenses directly allocated to net equity	(15,094)	732	1,464	(12,898)
Total transfers to income statement	5,928	1,286	-	7,214
Balance at 31/12/09	**(1,667)**	**381**	**1,464**	**178**

In 2009, a negative amount of 15,094 thousand euros on exchange-rate derivatives was allocated to Net Equity, as the effective part of the hedge relationships over the year. A positive amount of 5,928 thousand euros was transferred from Net Equity to the income statement based on the type and increasing the cost of purchases and services received.

In 2009, a positive amount of 732 thousand euros for fuel derivatives was allocated to net equity, as the effective part of the hedge relationships over the year. A positive amount of 1,286 thousand euros was "recycled" from Net Equity, reducing the cost of fuel purchases.

As result of the merger with Clickair, S.A., the fair value of the derivative financial instruments which Clickair, S.A. held on the merger date were included within the Company's reserves. Consequently, a positive amount of 1,464 thousand euros corresponding to the negative fair value of these derivative financial instruments as at 1 July 2009 was recorded under the heading "Adjustments for changes in value". These instruments had not been liquidated as at 31 December 2009. Accordingly, the heading “Adjustment for changes in value" includes the change in value of these derivatives from 1 July 2009 up to the 2009 balance sheet date.

d) Analysis of exchange-rate sensitivity

The variations in the fair value of the exchange-rate derivatives used by the Company mainly depend on the variation in the spot rate of the US dollar against the euro, as well as the development of short-term interest-rate curves. As at 31 December 2009, the fair value of these derivatives is negative for an amount of 2,383 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2009) and the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2009
+10% (appreciation of Euro)	(17,739)
-10% (depreciation of Euro)	26,683

The sensitivity analysis shows that the euro/dollar exchange rate derivatives will perform negatively if the euro rises, and positively if the euro falls. It is therefore recommendable to buy the US dollar at a fixed exchange rate.

e) Analysis of Brent oil price sensitivity

Variations in the fair value of the fuel derivatives used by the Company mainly depend on the variation in price of the underlying commodity, the mT of Jet Fuel Cif NWE, and the time to maturity. As at 31 December 2009, the fair value of these derivatives is positive for an amount of 546 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2009) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2009
+30% (rise in the price of Brent)	10,039
-30% (fall in the price of Brent)	(10,038)

The sensitivity analysis shows that fuel derivatives will perform positively if the price of Jet Fuel Cif NWE rises. The Company has therefore set a purchase price and is covered against rises in Jet Fuel Cif NWE. As the Jet Fuel Cif NWE Falls, the negative value increases.

2008

a) Exchange Rate Derivatives

In order to determine the fair value of exchange rate derivatives (forward exchange contracts), the Company uses the spot rate of the euro against the US dollar, as well as the forward points for the two currencies involved and, using discounted cash flow, determines the value of the contracted derivatives.

In 2008, the Company hedged against the exchange rate risk of part of it transactions denominated in US dollars.

The derivatives in effect as at 31 December 2008 and their fair values on said date are as follows:

	Nominal	Fair Value	
	31/12/08	Assets	Liabilities
Currency	(Thousands of Dollars)	(Thousands of Euros)	(Thousands of Euros)
Forwards USD 1Q 2009	11,602	189	-
Forwards USD 2Q 2009	8,752	142	-
Total	**20,354**	**331**	**-**

The positive fair value as at 31 December 2008 of the exchange rate derivatives (forwards) recorded under the heading "Short-term financial assets - Derivatives" is 331 thousand euros with a balancing entry in Net Equity. The forward exchange contracts in US dollars ensure the purchase of US dollars at prices which vary between 1.4181 and 1.4235 USD/EUR

As at 31 December 2008, the Company had designated as hedging instruments for accounting purposes, as allowed by the New General Accounting Plan, all the forward exchange contracts for US dollars in effect at that date, as cash flow hedges for payment of fuel purchases, payments of aircraft leases, maintenance services and the corresponding insurance policies, which are highly probable future transactions. The relationships of the designated cash flow hedges with the forward exchange contracts have been estimated as highly effective. Therefore, the Company has recorded their fair value in the Net Equity.

In 2008, after the effect of the conversion to the New General Accounting Plan, a positive amount of 19,650 thousand euros has been allocated to Net Equity as the effective part of the hedge relationships over the year. An amount of 10,619 thousand euros was recycled from Net Equity to the income statement based on the type and increasing the cost of purchases and services received.

In addition, in 2008, the different hedge relationships which had been designated in 2007 were discontinued. These covered purchases for 2008 and 2009. Consequently, 1,528 thousand euros has been subtracted from Net Equity and allocated to the income statement based on their type, while there are still 7,265 thousand euros remaining in Net Equity, which relates to the hedging instruments for purchases which were discontinued in 2009.

b) Fuel derivatives (commodities)

The Company uses derivative financial instruments on the price of a barrel of Brent oil (commodities) with the aim of hedging against fluctuations in the price of Jet Fuel, which fuel purchases are referenced to.

The commodity derivatives in effect as at 31 December 2008 and their fair values on said date are as follows:

	mT 31/12/08	Fair Value Assets (Thousands of Euros)	Fair Value Liabilities (Thousands of Euros)
Swaps 1Q 2009	60,000	-	1,973
Swaps 2Q 2009	30,000	-	365
Total	**90,000**	**-**	**2,338**

The negative fair value as at 31 December 2008 of the Brent derivatives (swaps) recorded under the heading "Short-term financial assets - Derivatives" is 2,338 thousand euros with a balancing entry in Net Equity. Consequently, for swaps on Brent, the Company pays a fixed rate between US$46 and US$89.7/barrel.

As at 31 December 2008, the Company designated as hedge instruments for accounting purposes, as allowed by the New General Accounting Plan, all the Brent swaps as cash flow hedges, in US dollars, from the purchase of fuel referenced to Jet Fuel.

In 2008, a negative amount of 8,979 thousand euros was allocated to Net Equity as the effective part of the hedge relationships over the year. An amount of 6,641 thousand euros was "recycled" from Net Equity, increasing the cost of fuel purchases.

c) Analysis of exchange-rate sensitivity

The variations in the fair value of the exchange-rate derivatives used by the Company mainly depend on the variation in the spot rate of the US dollar against the euro, as well as the development of short-term interest-rate curves. As at 31 December 2008, the fair value of these derivatives is positive for 331 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2008) of the fair values of the exchange-rate derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2008
+10% (appreciation of Euro)	(1,329)
-10% (depreciation of Euro)	1,625

The sensitivity analysis shows that the euro/dollar exchange rate derivatives will perform negatively if the euro rises, and positively if the euro falls. It is therefore recommendable to buy the US dollar at a fixed exchange rate.

d) Analysis of Brent oil price sensitivity

Variations in the fair value of the fuel derivatives used by the Company mainly depend on the variation in price of the underlying commodity, the barrel of Brent, and the time to maturity. As at 31 December 2008, the fair value of these derivatives is negative for an amount of 2,238 thousand euros.

The following table shows the breakdown of the sensitivity analysis (variations on the fair value as at 31 December 2008) of the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity (Thousands of Euros)	31/12/2008
+30% (rise in the price of Brent)	2,607
-30% (fall in the price of Brent)	(2,402)

The sensitivity analysis shows that fuel derivatives will perform positively if the price of Brent rises. The Company has therefore set a purchase price and is thus covered against rises in Brent. As the price of Brent falls, the negative value increases.

16. Public authorities and tax position

16.1. Current balances with Public Authorities

The breakdown of current balances with Public Authorities on the balance sheet dates for 2009 2008 is as follows

	Thousands of Euros	
Debit balances	31/12/2009	31/12/2008
Tax Agency, withholdings and interim payments	499	500
Total	**499**	**500**

	Thousands of Euros	
Credit balances	31/12/2009	31/12/2008
Credit balances with the Social Security	4,562	2,212
Credit balance with Tax Agency for personal income tax	933	629
Credit balance with Tax Agency for VAT	699	118
Total	**6,194**	**2,959**

16.2. Reconciliation of accounting profit and taxable base

The reconciliation between the accounting profit and the tax base for Corporation Tax is as follows:

2009

	Thousands of Euros		
	Increases	Decreases	Total
Accounting profit after tax			27,777
Permanent differences:			
Corporation Tax	12,376	-	12,376
Other permanent differences	1,100	-	1,100
Temporary differences:			
From the year (provisions)	8,347	-	8,347
Previous tax base	21,823	-	49,600
Offsetting tax-loss carryforwards			(49,600)
Tax base			**-**

2008

	Thousands of Euros		
	Increases	Decreases	Total
Accounting profit after tax			8,539
Permanent differences:			
Corporation Tax	-	(47,137)	(47,137)
Other permanent differences	140	-	140
Adjustments for transition to New General Accounting Plan	-	(14,714)	(14,714)
Temporary differences:			
From the year	-	-	-
Tax base	**140**	**(61,851)**	**(53,172)**

16.3. Reconciliation between the accounting profit and the Corporation Tax expense

The reconciliation between the accounting profit and the Corporation Tax expense for 2009 and 2008 is as follows:

	Thousands of Euros	
	2009	2008
Accounting profit before Corporation Tax	40,153	(38,598)
Tax payable at 30% of the tax base	(14,880)	15,952
Impact of temporary differences	2,504	-
Activation of tax-loss carryforwards corresponding to previous years	-	31,185
Total (expense) or income for tax recognised in the income statement	(12,376)	47,137
Accounting profit after Corporation Tax	**27,777**	**8,539**

16.4. Tax recognised in Net Equity

The breakdown of tax recognised directly in Net Equity is as follows:

2009

	Thousands of Euros		
	Increases	(Decreases)	Total
For current tax:			
Cash flow hedges (net of currency and Brent)	549	-	549
Subsidies	-	(509)	(509)
Total tax recognised directly in Equity (current tax)	**549**	**(509)**	**40**

2008

	Thousands of Euros		
	Increases	(Decreases)	Total
For current tax:			
Cash flow hedges (net of currency and Brent)	602	-	602
Derived from previous year	-	(677)	(677)
Total tax recognised directly in Equity (current tax)	**602**	**(677)**	**(75)**

16.5. Deferred tax assets

The breakdown of the this account at the balance sheet dates for 2009 and 2008 is as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Tax credits to offset losses	73,490	47,137
Temporary differences	5,800	701
Total deferred tax assets	**79,290**	**47,838**

The temporary differences as at 31 December 2009 recorded a total of 4,443 thousand euros corresponding to the temporary differences for provisions and a total of 1,357 thousand euros of temporary differences for the negative measurement of financial instruments at the balance sheet date (see Note 15).

The breakdown of the tax-loss carryforwards recorded in the accompanying financial statements is as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Tax-loss carryforwards:		
2004	-	9,607
2005	-	16,711
2006	-	8,557
2007	138,036	69,075
2008	90,748	53,172
2009	16,181	-
TOTAL	**244,965**	**157,122**

There are no tax-loss carryforwards which have not been recorded.

The tax-loss carryforwards as at 31 December 2009 include the tax-loss carryforwards from Clickair, S.A. (see Appendix 1).

The Company has 15 tax years from the first year with positive tax bases to offset the aforementioned tax-loss carryforwards.

In 2008, the Company activated the tax credits of the tax-loss carryforwards. As at 31 December 2009, these tax credits remain activated given that the Company's Directors consider that the Company will probably obtain future profits to be offset by these tax-loss carryforwards. The factors which were taken into consideration for activating these tax-loss carryforwards were as follows:

In the year ending 31 December 2009, the Company achieved a profit before tax of 40,153 thousand euros, which allowed it to offset the tax-loss carryforwards from prior years for an amount of 49,600 thousand euros.

The Company's Business Plan approved by the Board of Directors forecasts profits for 2010 and subsequent years to offset the tax-loss carryforwards.

There is a mandate from the Company's Management Council to execute the actions contained in the aforementioned Business Plan.

There is considered to be a high probability that the Plan will be met given its execution as at the preparation date of these financial statements.

16.6. Deferred tax liabilities

The breakdown of the balance of this account at the balance sheet dates for 2009 and 2008 is as follows:

	Thousands of Euros	
	31/12/2009	31/12/2008
Temporary differences	13,335	776
Total deferred tax liabilities	**13,335**	**776**

The temporary differences as at 31 December 2009 recorded a total of 12,136 thousand euros associated with the temporary difference of the initial goodwill resulting from the merger with Clickair, S.A. (see Notes 3 and 6), a total of 807 thousand euros for temporary differences of the derivative financial instruments with a favourable measurement and a total of 392 thousand euros for temporary differences in the subsidies recorded under Net Equity.

16.7. Years pending verification and inspection

In accordance with current legislation, taxes may not be considered as definitively settled until the filed returns have been inspected by the tax authorities or the prescription period of four years has passed. At 31 December 2009, the Company has all the years since its incorporation open to inspection.

The Company's Directors consider that the aforementioned taxes have been paid appropriately. Therefore, in the event of discrepancies in the interpretation of current legislation resulting from the tax treatment given to the Company's operations, any possible resulting liabilities, should they occur, will not have a material effect on the accompanying financial statements.

17. Revenues and expenses

17.1. Net turnover

The Company's sole ordinary activity is passenger air transport. All other activity categories are complementary and are not significantly different from one another. Therefore, the notes only break down information by geographic market segments.

The breakdown of turnover by geographic market for 2009 and 2008 is as follows:

	Thousands of Euros	
Geographical Market	2009	2008
Spain	263,792	164,448
Other European Union countries	334,170	272,832
Total	**597,962**	**437,280**

17.2. Procurement

The breakdown of the "Procurement" heading for 2009 and 2008 is as follows:

	Thousands of Euros	
	2009	2008
Fuel consumption	102,443	150,532
Other consumables	1,420	3,038
Impairment of goods and raw materials (Note 10)	2,000	-
Change in inventories	-	(825)
Total	**105,863**	**152,745**

17.3. Breakdown of purchases by origin

The breakdown of the purchases made by the Company in 2009 and 2008 according to their origin is as follows:

2009

	Thousands of Euros	
	National	Intracommunity
Purchases	79,391	26,472

2008

	Thousands of Euros	
	National	Intracommunity
Purchases	100,427	52,318

17.4. Other operating revenue

The breakdown of the "Other operating revenue" heading in the income statement for 2009 and 2008 is as follows:

	Thousands of Euros	
	2009	2008
Payments received for aircraft subleases	2,689	9,584
Other revenue	2,353	1,288
Total net revenue	**5,042**	**10,872**

In 2009 and 2008, the Company made adjustments to available capacity, subleasing two aircraft to third parties, which generated revenue of 2,689 and 9,584 thousand euros respectively, which are recorded under the heading "Other operating revenue - Payments received for aircraft subleases".

17.5. Personnel

The breakdown of the "Personnel Expenses" heading in the income statement for 2009 and 2008 is as follows:

	Thousands of Euros	
	2009	2008
Salaries, wages and similar items	49,877	46,168
Severance pay	7,718	474
Social contributions	9,204	8,893
Defined contributions to pension schemes (Note 4.13)	68	121
Other personnel expenses	227	116
Payment of Employee Incentive Plan provision	-	(160)
Total	**67,094**	**55,612**

The average number of employees in 2009 and 2008, broken down by category and gender, is as follows:

2009

	2009		
Category	Men	Women	Total
Senior Management	5	1	6
Pilots	262	6	268
Flight attendants	135	361	496
Airport personnel	77	-	77
Maintenance personnel	41	4	45
Operational support personnel	45	51	96
Administrative support personnel	72	74	146
Sales personnel	7	9	16
Total	**644**	**506**	**1,150**

2008

	2008		
Category	Men	Women	Total
Senior Management	4	-	4
Pilots	221	8	229
Flight attendants	116	283	399
Airport personnel	195	0	195
Maintenance personnel	92	9	101
Operational support personnel	42	54	96
Administrative support personnel	55	64	119
Sales personnel	26	32	58
Total	**751**	**450**	**1,201**

As at 31 December 2009, the Company had 1,195 employees, 586 men and 609 women (615 men and 398 women as at 31 December 2008).

As at 31 December 2009, the Company's Board of Directors consisted of twelve men (eight men and one woman as at 31 December 2008).

As at 31 December 2009, the senior management consisted of five men and one woman (four men as at 31 December 2008).

17.6. Other operating expenses

The breakdown of the "Other operating Expenses" heading in the income statement for 2009 and 2008 is as follows:

	Thousands of Euros	
	2009	2008
External services:		
Aircraft and other leases	76,880	69,945
Aircraft and other maintenance	66,026	31,030
Airport fees	50,941	41,599
Air Traffic Control	45,436	35,435
Independent professional services	21,828	17,173
Ground handling service	69,396	33,021
Supplies and other expenses	28,125	21,618
Insurance, banking services and other items	9,935	8,828
Advertising	10,737	13,806
Others	1,160	390
Taxes	221	259
Losses, impairment and change in provisions for commercial operations	457	2,623
Total other operating expenses	**381,142**	**275,727**

17.7. Provision for bad debts

Movements under provision for bad debts over 2009 and 2008, in thousands of euros, is as follows:

2009

	Thousands of Euros			
	01/01/2009	Allocations	Applications	31/12/2009
Impairment of loans for commercial operations	3,621	469	(12)	4,090

2008

	Thousands of Euros		
	01/01/2008	Allocations	31/12/2008
Impairment of loans for commercial operations	998	2,623	3,621

17.8. Restructuring expenses

The breakdown of restructuring expenses recorded in 2009 according to type, in thousands of euros, is as follows:

	(Thousands of Euros)
Other operating expenses-	**19,585**
Repairs and conservation	12,860
Other services	5,798
Leases and fees	927
Personnel Expenses-	**8,368**
Severance pay	6,960
Salaries and wages	1,292
Social Security	116
Impairment and gains (losses) for disposal of fixed assets-	**4,540**
Depreciation and amortisation	**2**
Total restructuring expenses	**32,495**

The total amount of these restructuring expenses resulted from integrating the Company with Clickair, S.A. (see Note 3).

In 2008, there were no material restructuring expenses.

18. Foreign Currency

The breakdown of the most significant balances and transactions in foreign currencies, measured at the balance sheet date exchange rate and average exchange rate respectively is as follows:

	(Thousands of Euros)	
	2009	2008
Balances:		
Long- and short-term deposits	87,029	20,376
Receivables and other assets	10,427	4,228
Long-term provisions	86,653	16,883
Payables and other liabilities	15,913	18,355
Transactions:		
Other revenue	2,751	9,584
Purchases	107,365	139,622
Services received	107,826	96,477

Both the balances at the balance sheet date and the purchases and services received in foreign currency were mainly carried out in US dollars.

All services were performed in euros.

These transactions and balances in foreign currency led to exchange differences in 2009 and 2008, in thousands of euros, as broken down in the following table:

	Thousands of Euros	
	2009	2008
Exchange differences (loss)	1,489	2,798

19. Balances and Other Information Relating to the Members of the Board of Directors and Senior Management

The total number of Company shares owned directly by the Board of Directors as at 31 December 2009 is 1,256,290 (1,803,453 shares at 31 December 2008).

The remuneration received in 2009 and 2008 by the Company's Directors and Senior Management, classified by item, is as follows:

2009

	Thousands of Euros			
	Remuneration	Other items	Payments based on equity instruments	Total
Board of Directors	1,213	1,464	-	2,677
Senior Management	1,343	410	-	1,753

The remuneration corresponding to other items mainly corresponds to severance pay resulting from the merger with Clickair, S.A.

2008

	Thousands of Euros			
	Remuneration	Other	Payments based on equity instruments	Total
Board of Directors	1,357	60	150	1,567
Senior Management	822	-	-	822

As at 31 December 2009, there are no obligations agreed with the aforementioned members relating to pensions or any outstanding balances with the Company. The Company has only undertaken the obligation to pay life assurance premiums to some Directors.

In addition, some of the Company's senior management have incentive plans, “SAR Plan" and Value Creation Plan", as well as other specific agreements with remuneration based on shares in the Company. However, the impact of these incentive plans is not material.

The Company's Directors with shares, and/or those who hold positions or work, in companies whose business purpose is identical, similar or complementary to that performed by the Company are as follows.

Name	Type of scheme for activity rendered	Company through which activity is rendered	Activity	Position held or performed in the aforementioned company
Mr. José María Fariza Batanero	Employee	IBERIA, Líneas Aéreas de España, S.A.	Passenger air transport	Purchases and Services Director
Mr. Manuel López Colmenarejo	Employee	IBERIA, Líneas Aéreas de España, S.A.	Passenger air transport	Deputy Commercial and Customer Director
Mr. Jorge Pont	Commercial	IBERIA, Líneas	Passenger air	Member of the

Sanchez		Aéreas de España, S.A.	transport	Board of Directors

20. Information on the environment

The Company's Directors consider that the environmental risks resulting from its activity are minimum and, at any rate, appropriately covered, and consider that no additional liabilities will arise relating to these risks.

The Company did not incur any expenses or receive any subsidies relating to these risks in 2009 or 2008.

21. Guarantees extended to third parties

In addition to the deposits (see Note 9.2), several financial institutions have presented bank guarantees in favour of the aircraft lessors for the lease agreements and for other items, basically in favour of airports and fuel supply companies.

As at 31 December 2009, the guarantees extended by the Company to aircraft lessors stood at 47,452 thousand euros at the exchange rate at the balance sheet date (24,235 thousand euros as at 31 December 2008), and the guarantees extended to ground handling companies, airports and for fuel purchases stood at 44,115 thousand euros (21,636 thousand euros as at 31 December 2008).

The Company's Directors do not consider that additional liabilities other than those already recorded in the accompanying financial statements will arise as a consequence of these guarantees.

22. Auditors' Fees

In 2009 and 2008, the fees for account auditing services and other services provided by the Company's auditor, Deloitte, S.L., or by a company from the same group or related to the auditor were as follows:

2009

Category	Thousands of Euros			
	Audit of Financial Statements	Other Audit Services	Other Services	Total
Deloitte, S.L.	110	56	126	292
Total	**110**	**56**	**126**	**292**

2008

Category	Thousands of Euros			
	Audit of Financial Statements	Other Audit Services	Other Services	Total
Deloitte, S.L.	70	65	162	297
Total	**70**	**65**	**162**	**297**

23. Comparative impact with IFRS

The amendment to Section 200 of the Consolidated Text of the Public Limited Companies Act introduced by Act 62/2003, 30 December, on Tax, Administrative and Social Measures establishes that companies which have issued securities admitted to trading on a regulated market in any Member State of the European Union, and which, in accordance with current legislation, only publish individual financial statements, are required to include in the annual report the main variations that would occur in capital and reserves and the income statement if the International Financial Reporting Standards (hereinafter, IFRS-EU) adopted by the European Union had been applied.

In this regard, there are no material differences in the Company's Net Equity as at 31 December 2009 or in its income statement for the year ending on that date between the General Accounting Plan and the IFRS-EU.

24. Subsequent events

In its meeting on 19 February 2010, the Board of Directors accepted the resignation presented on that day by the following Vueling directors:

- Mr. José Creuheras Margenat, director representing a major shareholder
- Mr. Jordi Fainé de Garriga, director representing a major shareholder
- Mr. Ferràn Conti Penina, external director

The Board of Directors, having received information and an express proposal from the Appointments and Remuneration Committee, proposed the appointment of the Company's Managing Director, Mr. Alejandro Cruz de Llano as Chief Executive Officer by co-optation, in accordance with legal provisions and the Company's Articles of Association.

Similarly, the Board of Directors, having received information and an express proposal from the Appointments and Remuneration Committee, proposed the appointment of the following members by co-optation in accordance with legal provisions and the Company's Articles of Association:

- Ms. Isabel Atkinson
- Mr. Jaime Manuel de Casto Fernández

No significant aspects have occurred subsequent to 31 December 2009 which could have a significant impact on the accompanying financial statements.

Barcelona, on 26 March 2010

Mr. Josep Piqué Camps	Mr. Miguel Angel Fernandez Villamandos
D. Jorge Pont Sánchez	Nefinsa S.A.

Mr. Pedro Mejía Gomez	Mr. Daniel Villalba Vila
Mr. Enrique Donaire Rodríguez	Mr. José María Fariza Batanero
Mr. Manuel Lopez Colmenarejo	Mr. Alejandro Cruz de Llano
Mr. Jaime Manuel de Castro Fernández	Ms. Isabel Atkinson

APPENDIX 1
INFORMATION RELATING TO THE MERGER BY TAKEOVER OF THE COMPANY CLICKAIR, S.A. (Note 3)

(1) MERGER BALANCE SHEET AS AT 1 JULY 2009 (THOUSANDS OF EUROS):

ASSETS	01.07.09 (*)	LIABILITIES	01.07.09 (*)
NON-CURRENT ASSETS:		**SHAREHOLDERS' EQUITY:**	
Intangible fixed assets-	5,461	**Capital-**	50,020
Property, plant and equipment -	5,535	**Share premium-**	128,496
Long-term financial investments-	37,920	**Reserves-**	(41,404)
Deferred tax assets-	42,968	**Retained earnings-**	(91,355)
Total non-current assets	**91,884**	**Other shareholder contributions**	4,264
		Profit (loss) for the year-	(3,430)
		Adjustments for changes in value-	171
		Total net equity	**46,762**
		NON-CURRENT LIABILITIES:	
		Long-term provisions -	36,178
		Long-term liabilities	1,891
		Deferred tax liabilities-	926
		Total non-current liabilities	**38,995**
CURRENT ASSETS:			
Trade and other receivables-	53,112	**CURRENT LIABILITIES:**	
Short-term financial investments-	22,867	**Short-term liabilities-**	8,459
Short-term prepayments and accrued income-	3,301	**Trade and other payables-**	60,678
Cash and cash equivalents-	29,027	**Short-term accruals and deferred income-**	45,297
Total current assets	**108,307**	**Total current liabilities**	**114,434**

TOTAL ASSETS	200,191	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	200,191

(*) Unaudited balance sheet

(2) REVALUED ASSETS:

The company has included the assets acquired in its accounting books at the same value as they appeared in the transmitting entity given that the merger process did not involve other category revaluations except the 36,733 and 15,857 thousand euros corresponding to slots and goodwill respectively, mentioned in Note 3 of the accompanying report.

(3) TRANSMITTED ASSETS SUBJECT TO DEPRECIATION AND AMORTISATION:

The Company included with effect for accounting purposes on 1 July 2009 assets subject to depreciation and amortisation for a net amount of 10,996 thousand euros, plus the assigned slots and goodwill generated for 36,733 and 15,857 thousand euros respectively, mentioned in Note 3 of the accompanying report.

The years in which the transmitting company acquired the assets transmitted to the Company which are subject to depreciation and amortisation are as follows:

Item	Year it became operative	Thousands of Euros		
		Acquisition costs	Accumulated depreciation/amortisation	Net Book Value
Computer software	2004-2009	7,895	(2,581)	5,314
Trademarks and patents	2004-2008	332	(185)	147
Total intangible fixed assets		**8,227**	**(2,766)**	**5,461**
Aircraft components	2004-2009	8,439	(3,630)	4,809
Plant and machinery	2004-2009	150	(22)	128
Other facilities and equipment	2004-2009	9	(3)	6
Furniture and equipment	2004-2009	86	(14)	72
Other property, plant and equipment	2004-2009	21	(7)	14
Information processing equipment	2004-2009	667	(161)	506
Total property, plant and equipment		**9,372**	**(3,837)**	**5,535**
Total property plant and equipment and intangible fixed assets		**17,599**	**(6,603)**	**10,996**

(4) TAX BENEFITS ENJOYED:

The merger agreed between the Company and Clickair, S.A. has been included under the special tax scheme provided for in Chapter VIII of Title VII of the Consolidated Text of the Corporation Tax Act approved by Legislative Royal Decree 4/2004.

Management Report 2009

1. Business Performance and Company Position

Vueling Airlines S.A. was set up with the aim of becoming the leading new generation European airline, combining the advantages of the so-called low-cost airlines with the highest standards of customer service. The Company's commercial activity consists of point-to-point passenger transport, mainly from the Company's six operational bases (Barcelona, Madrid, Seville, Bilbao, Valencia and Malaga) to major Spanish and European cities.

In 2009, Vueling completed the merger with its main competitor, Clickair, which led to a significant increase in its activity, resulting in a net profit of €27.7 million with a net margin of 4.6% over turnover, an increase of 2.7% compared with 2008 (profit of €8.5 million with a margin of 1.9%).

Total revenue for the year stood at €601.6 million (€603 million in "Services" and “Other operating revenue" excluding items such as lower sales for amounts not collected from credit cards and others), an increase of 36.3% compared with 2008. On a unit basis, total revenue per available seat-kilometre increased 6.4% up to 5.91 eurocents.

The average revenue per passenger remained stable during the year. This was achieved as a result of a significant increase in the basic fare, which offset the negative effect of the reduction in fuel charges following the reduction in fuel prices from highs of $140 per barrel in the middle of 2008. Key factors in the aforementioned fare increase were the merger synergies and the extremely positive performance of the indirect sales channel.

Ancillary revenue per passenger fell 18% over the year, mainly due to two factors: the change, from "opt-out" to "opt-in" as the method of buying online insurance, in accordance with the provisions of European legislation, and the increase in sales through the off-line channel, where some ancillary products are already included in the basic fare. The general fall in ancillary revenue was offset by the success of the new products, and also by the increase in revenue from existing products, such as seat allocation and payment methods.

The increase in fares through the indirect channel more than offset the negative impact which the increase in sales through that channel had on ancillary revenue. Ancillary revenue per passenger amongst those customers who bought through the online channel was €13.6, one of the highest in Europe.

The Company operated 62,573 flights over the year, 33.6% more than in 2008, and increased the occupation level by 3.4% up to 73.7%, and the number of passengers transported by 39.3%.

Unit costs fell 12.3% to 5.21 eurocents per ASK, due to the fall in oil prices and a cautious hedging policy. In 2009, fuel costs were 30.6% lower than in 2008, even though the Company operated a larger fleet (an average of 26 aircraft compared with 21 in 2008). The ex-fuel cost per ASK rose 3%, up from 4.04 to 4.18 eurocents per ASK. This was mainly due to the increase in flights to destinations with a larger number of business passengers and to airports with higher costs.

As a result of the merger with Clickair, the new Company has become the second largest Spanish airline and the fourth largest operating in Spain. Vueling operated out of 40 airports by the end of 2009, 19 more airports than it operated in at the same date of the previous year, with a fleet made up of 35 Airbus 320.

Factors which contributed to the positive results in 2009 include the structure of the sales channels, where there is a good balance between the direct channel (websites, etc.) and the indirect channel (agencies through GDS Vueling and, through GDS, the agencies of its main shareholder, Iberia, as a result of the Shared Code agreement), the increase in supply to business passengers leading to greater balance between business passengers and holiday passengers, obtaining leadership in four of the seven bases (Barcelona, Bilbao, Seville and Ibiza with market shares of 24%, 18%, 36% and 11% respectively), as well as the synergies resulting from the merger both in costs and in revenue.

2. Outlook

In 2010, the Company expects to consolidate its position in the markets in which it operates. Vueling is taking advantage of the opportunities available for cost reduction, brought about both by the merger synergies yet to be exploited, as well as the cost reduction programmes it is implementing. A key objective for 2010 will be to reduce ex-fuel costs.

3. Research and Development

The Company has not performed any significant research and development in 2009.

4. Risk and Uncertainty Policy and Management

The Company's activities are exposed to different financial risks: market risk (including exchange-rate risk and price risk), credit risk and liquidity risk.
Through the policies established for this purpose, the Company's Management aims to minimise potential adverse effects on financial profitability. The Company uses derivatives to hedge against market risk.
Risk management is controlled by the Company's Economic Financial Department in accordance with the policies established by the Company's management. This department identifies, assesses and hedges against financial risks in close collaboration with the Company's operational units.

a) Market risk:

Exchange-rate risk

The Company is exposed to exchange-rate risks for currency transactions in dollars. Exchange-rate risk arises from future commercial transactions, such as the purchase of fuel or the costs associated with aircraft operating leases.

In order to control the exchange-rate risk which arises from future commercial transactions denominated in dollars, the Company uses currency forward contracts. The Company's Economic Financial Department is responsible for managing the net position in dollars using external forward contracts.

The Company's risk management policy is based on using hedging instruments for a defined percentage of its currency needs. Through budget management, the Company is able to determine the dates of future payments in dollars to a high degree of accuracy. Therefore, almost all the planned payments in dollars rate as firm commitments or highly probable forecast transactions for the purposes of hedge accounting.

In 2010, the Company expects to make payments of US$421 million. Based on this, as at 31 December 2009 the Company has used forwards to cover 40% of that amount.

Price risk

The Company is exposed to price risk from aviation fuel. The Company has contracted fuel derivative instruments to hedge against the risk of future price fluctuations.

The price risk management policy consists of using hedging instruments for a percentage of the estimated jet fuel consumption over a determined period. In 2010, the Company expects to consume 313,000 metric tons of jet fuel. Based on this, as at 31 December 2009 the Company has used swaps to cover 22% of that amount.

b) Credit risk:

Except for the transactions performed to hedge against market risk and the balances held for deposits with aircraft lessors, the Company has no significant credit risk concentrations. The transactions with currency derivatives are only executed with financial institutions with a high credit rating. Sales to retail customers are mainly made in cash or through credit cards. Travel agency sales are also made in cash or through credit cards.

c) Liquidity risk

The Company carries out prudent management of liquidity risk based on holding enough cash and tradable securities, the availability of financing through sufficient agreed credit facilities and sufficient capacity to liquidate market positions. Given the dynamic nature of the underlying businesses, the

Company's Treasury Department aims to maintain financing flexibility and access to liquidity in the contracted financial instruments.

d) Interest rate risk in cash flows and fair value

The Company holds assets with short-term returns invested mainly in repos with a yield in accordance with financial markets. Revenues in cash flows from the Company's ordinary activities are independent of variations in market interest rates.

The Company's exposure to interest rate risk on its liabilities is very limited due to the level of financial indebtedness.

In addition to the risks mentioned above, the volatility of oil prices and the possible fall in domestic demand arising from the current macroeconomic situation are significant uncertainties which could have an important effect on results in the air transport industry.

5. Treasury shares

This heading, which reduces Equity as at 31 December 2009, in accordance with the presentation requirements established in the General Accounting Plan, includes 216,083 shares each with a par value of 1 euro.

The total amount of the Company's treasury shares as at 31 December 2009 accounts for 0.72% of the total issued capital at that date, compared with 1.45% as at 31 December 2008.

The Company holds the same number of treasury shares which it held at the end of 2008. The reduction in the percentage of treasury shares over the total issued capital is due to the capital increase which the Company carried out to meet the needs of the merger. The capital increase was for the same number of shares as those already available, with a par value of 1 euro, up to 29,904,518 shares.

As at 31 December 2009, the Company had share commitments as detailed in Note 5.13 of the annual report, although these are not material. The Company's Board of Directors has not taken a decision about the final use planned for the treasury shares mentioned above.

6. Significant Events after the Balance Sheet Date

In its meeting on 19th February 2010, the Board of Directors accepted the resignation presented on that day by the following Vueling directors:

- Mr. José Creuheras Margenat, director representing a major shareholder
- Mr. Jordi Fainé de Garriga, director representing a major shareholder
- Mr. Ferràn Conti Penina, external director

The Board of Directors, having received information and an express proposal from the Appointments and Remuneration Committee, proposed the appointment of the Company's Managing Director, Mr. Alejandro Cruz de Llano as Chief Executive Officer by co-optation, in accordance with legal provisions and the company's Articles of Association.

Furthermore, the Board of Directors, having received information and an express proposal from the Appointments and Remuneration Committee, proposed the appointment of the following members by co-optation in accordance with legal provisions and the company's Articles of Association:

- Ms. Isabel Atkinson

- Mr. Jaime Manuel de Casto Fernández

No significant aspects have occurred subsequent to 31 December 2009 which could have a significant impact on the accompanying financial statements.

7. Additional information in compliance with the provisions of Section 116 bis of the Securities Market Act

Information relating to the Company's capital structure, restrictions on the transfer of shares, significant shareholdings, voting right restrictions, shareholder agreements, rules and powers applicable to the members of the management body and amendments to the Company's Articles of Association, and agreement between the Company and its directors, managers and employees is explained below:

a) Capital structure

The Company's share capital of €29,904,518 is fully subscribed and paid-up. It is made up of 29,904,518 shares, each with a par value of 1 euro. All of the shares are from the same class, with equal rights and obligations, and are admitted for trading on the Stock Markets of Barcelona, Madrid and Bilbao.

b) Restrictions to the transfer of shares

There are no restrictions in the Company's Articles of Association as to the acquisition or transfer of shareholdings, and so the shares can be freely transferred, without prejudice to compliance with state regulations (Air Navigation Act) and Community regulations (EEC 2407/1992) which establish that holding an operating licence requires a community majority. Therefore, the company will adopt the appropriate measures to maintain said compliance.

c) Significant shareholdings

The owners of significant direct and indirect shareholdings as at the Balance Sheet date are: Iberia Líneas Aéreas de España, S.A, which has a direct holding of 45.85%, JP Morgan Asset Management Holding Inc., which has an indirect holding a 4.91%, Nefinsa, S.A., which has a direct holding of 4.15% and Fidelity International Limited, which has an indirect holding of 3.99%.

d) Voting right restrictions

There are no legal restrictions to voting rights, although there are restrictions in the Articles of Association. No requirement or condition is necessary in order to attend the General Meeting and to exercise voting rights other than that the shareholder, individually or as a group with others, holds a minimum of 150 shares, which are recorded in the corresponding book entry five days prior to the Meeting.

e) Shareholder agreements

There are permanence agreements between two of the significant shareholders: Iberia Líneas Aéreas de España, S.A y Nefinsa, S.A.

f) Rules applicable to the appointment and substitution of Board members and amendments to the Articles of Association

The power to appoint and remove directors rests with the General Meeting of Shareholders, except in the case of vacancies covered by the co-optation system, which corresponds to the Board of Directors.

Proposals for appointments of Directors which the Board of Directors submits to the General Meeting of Shareholders and the appointment resolutions which said body adopts, by virtue of the powers of co-optation legally attributed to it, must respect the provisions of the Rules of the Board and follow from the corresponding report from the Appointments and Remuneration Committee.

External directors must be persons of recognised professional repute, competence, solvency and experience, who are willing to dedicate sufficient time and capacity to the Company. Especially strict criteria should be applied to those persons called to cover the positions of independent directors.

In particular, independent directors may not be persons who:

1. have been employees or executive directors of group companies, except following 3 or 5 years, respectively since leaving that position.

2. receive from the Company, or from its group, any amount or benefit for any item other than their remuneration as director, unless this is not material. For the purposes of the provisions of this section, the following shall not be taken into account: dividends or pension supplements which directors receive

based on their previous professional or work relationship, providing these supplements are unconditional and, therefore, the company which pays them may not, at its discretion, suspend, modify or revoke their payment without breaching its obligations.

3. are, or have been during the last 3 years, a partner of the external auditor or responsible for the auditors' report, whether of the audit of the listed Company during that period or of any other group company.

4. are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

5. maintain, or have maintained over the last year, a significant business relationship with the Company or any group company, whether on their own behalf or as a significant shareholder, director or senior manager of a company which maintains or which has maintained that relationship.
Business relationships are those of suppliers of goods and services, including financial services, advisory services or consultants.

6. are significant shareholders, executive directors or senior managers of a company which receives, or has received over the last 3 years, significant donations from the Company or its group. Simple patrons of a Foundation which receives donations shall not be included in this category.

7. are spouses, persons linked by any similar affective relationship, or up to second level relatives of an executive director or senior manager in the Company.

8. have not been proposed, whether for appointment or re-election, by the Appointments and Remuneration Committee.

9. are in any of the cases indicated in letters a), b), d), e) or f) above with regard to any significant shareholder or one represented on the Board. In the case of a relative indicated in letter f), the limitations are not only to be applied with regard to the shareholder, but also with regard to the directors representing major shareholders in the subsidiary.

Proposals for re-electing directors which the Board of Directors decides to submit to the General Meeting must be subject to a formal preparation process, which must include a report issued by the Appointments and Remuneration Committee which assesses the quality of the director's work and the dedication to the position during their term.

Independent Directors may not remain in their position for a continuous period greater than twelve (12) years. The same rule shall be applied in cases of discontinuous tenure, if the discontinuity is less than two (2) consecutive years.

In accordance with the provisions of Article 11 of the Rules of the Board of Directors, Directors will finish their term when the period for which they were appointed ends, or when so decided by the General Meeting.

Their term shall also end when there is a commitment from the Director to make his/her Position available to the Board, and when the Director resigns in the cases in which Directors are obliged to resign in accordance with Section B.1.20 of the Corporate Governance Report.

The cases in which Directors are obliged to resign before the end of the corresponding period shall be reported in the Annual Corporate Governance Report, without prejudice to the dismissal or removal being reported to be Spanish Securities Market Commission.

Under no circumstances shall the Board of Directors propose the removal of any Independent Director before the end of the period established in the Articles of Association for which the Director has been appointed, except when there is just cause. Just cause shall be understood as any of the cases which require the Director to resign as assessed by the Board of Directors following a report from the Appointments and Remuneration Committee. This Is without prejudice to the proposals for removal of directors in the event of tender offers, mergers or other similar company transactions which involve a change in the company's capital structure.

All the provisions of this article shall be applicable in the cases of representatives of legal entity Directors. Similarly, a Director who is appointed as representative of a legal entity shall be removed from the position when their relationship with the legal entity terminates for any reason.

The rules applicable for amendments to the Articles of Association are included in Sections 144 to 170 of the Public Limited Companies Act, and in Article 14 of the Articles of Association, which simply establish the required quorum of the General Meeting of Shareholders in the terms established in the legislation.

g) Powers of the members of the Board of Directors and particularly those relating to the possibility to issue or repurchase shares

The General Meeting of Shareholders held on 5 May 2009 resolved to substitute, and leave without effect, for the unused amount, the authorisation granted to the Board for the share buyback approved in the General Meeting of Shareholders held on 20 June 2008.

Based on the share price and the time which has passed, on 5 May 2009, the General Meeting of Shareholders approved a new authorisation for the Board for the processes in which it is necessary to use treasury shares, basically to meet specific commitments for giving shares to directors and employees as part of their general remuneration plans and in accordance with Section 75 of the Consolidated Text of the Public Limited Companies Act.

Hence, the Board of Directors is authorised to buy back shares in the following terms:

1) the acquisition may be carried out in any form permitted by law, once or several times, providing the shares acquired, together with those which the Company already owns, do not exceed 5% of the Company’s share capital, together with, as the case may be, that of other companies in the group.

2) an unavailable reserve may be allocated equal to the amount of the treasury shares calculated in the company assets. This reserve must be maintained as long as the shares are not disposed of or redeemed.

3) the shares have been fully paid up.

4) the authorisation shall be in effect for 18 months from the day following the resolution.

5) the minimum acquisition price shall be 1 euro per share, and the maximum price shall be 105% of the closing share price in the continuous market on the day in which the transaction is performed, with the acquisition transactions meeting the rules and uses of the stock markets.

It is expressly stated that the shares which are acquired as a consequence of this authorisation may:

- be disposed of or redeemed, or used as part of the remuneration systems referred to in Sub-Section 1 Paragraph 3 of Section 75 of the Public Limited Companies Act.

- be given to the beneficiaries of the Remuneration Plan or Plans for the Company's managers and employees, including the Chief Executive Officer.

The Board is authorised to exercise these powers and may delegate them to the Delegated Executive Committee, the Chairman, the Chief Executive Officer, the Secretary, the Vice-Secretary or any other person which the Board considers appropriate.

h) The Company's significant resolutions which enter into effect, are modified or terminate in the event of a change of control in the Company resulting from a takeover bid and its consequences, except when disclosure would seriously damage the Company

The Company has not adopted any agreement which enters into effect, is modified or terminates In the event of a change in control resulting from a takeover bid.

i) Agreements between the Company and its directors, managers or employees which provide compensation in the event of resignation or unfair dismissal or if their employment terminates as a result of a takeover bid.

As at 31 December 2009, the Company has agreements with five senior managers which involve the payment of severance pay when they leave the company. In 2009, it was agreed to terminate the employment of three senior managers as well as to terminate the contract of the Chief Executive Officer.

8. Annual Corporate Governance Report:

See accompanying document.

Barcelona, on 26 March 2010

Mr. Josep Piqué Camps	Mr. Miguel Angel Fernandez Villamandos
Mr. Jorge Pont Sánchez	Nefinsa S.A.
Mr. Pedro Mejía Gomez	Mr. Daniel Villalba Vila
Mr. Enrique Donaire Rodríguez	Mr. José María Fariza Batanero
Mr. Manuel Lopez Colmenarejo	Mr. Alejandro Cruz de Llano
Mr. Jaime Manuel de Castro Fernández	Ms. Isabel Atkinson