Auditor's Report on Vueling Airlines, S.A.

(Together with the annual accounts and directors' report of Vueling Airlines, S.A. for the year ended 31 December 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Vueling Airlines, S.A.

Opinion

We have audited the annual accounts of Vueling Airlines, S.A. (the "Company"), which comprise the balance sheet at 31 December 2021, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2.8 to the accompanying annual accounts which describes that the global health emergency triggered by COVID-19 has had a significant impact on all of the Company's businesses and, especially on airlines due to the drop in air traffic, and has significantly affected the Company's cash flows and results, giving rise to negative equity at 31 December 2021 as a result of the losses accumulated to that date.

In its assessment of the going concern principle, the Company's management has prepared a three-year business plan which has been continuously updated based on how the events of the year have progressed. The Directors consider that the Company has sufficient liquidity to continue its operations in the foreseeable future, and thus the going concern principle has been applied in the preparation of the annual accounts at 31 December 2021. However, as indicated in note 2.8 to the annual accounts, should a more severe scenario arise, the Company will have to secure additional funding for the near future. These events and conditions indicate the existence of material uncertainty which could cast significant doubts as to the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the risks described below as those of most significance in the audit which should be communicated in our report.

Passenger revenue recognition (see notes 5.9 and 19)

Passenger revenue recognition is a significant area and susceptible to material misstatement, because it comprises large volumes of low-value transactions that are recorded using complex and automated processes and, particularly at the reporting date with regard to the appropriate timing of recognition. Passenger revenue from the sale of flight tickets not yet used is recognised at the unaccrued amount in liabilities under current accruals and amounts to Euros 187 million at 31 December 2021.

Our main audit procedures included assessing the design and implementation of the Company's controls over the recognition of revenue, the performance of tests by the technological audit team, reconciling revenue for the year with cash inflows, checking the nature, accuracy and correct timing of the tickets sold and their correct recognition in revenue.

We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

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Valuation of property, plant and equipment-aircraft fleet (see notes 5.2 and 7)

At 31 December 2021 the Company has recognised under property, plant and equipment- aircraft fleet those aircraft which it owns or holds under lease, amounting to Euros 477 million.

Due to the crisis triggered by the COVID-19 pandemic, the Company's activity has reduced significantly since the year ended 31 December 2020, which indicates that assets could show indications of impairment. Provided that it identifies indications of impairment, the Company calculates the recoverable amount of the fleet using an estimate of value in use. The Company is fully deemed to be a cash-generating unit for impairment testing purposes. The aforementioned value in use was calculated by applying valuation techniques which require the exercising of judgement by the Directors and the use of estimates. Due to the high level of judgement, the uncertainty associated with these estimates and the significance of the carrying amount of the aircraft fleet, this has been considered a relevant aspect of our audit.

Our main audit procedures included assessing the design and implementation of key controls relating to the evaluation of the existence of indications of impairment and, where applicable, estimating the recoverable amount of the aircraft fleet, analysing the reasonableness of the criteria used by the Directors and Group management to identify the indications of impairment and comparing information contained in the model used to estimate the indications of impairment with the Company's business plan approved by the Board of Directors.

We also assessed whether the disclosures in the accompanying notes to the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Provisions for scheduled aircraft maintenance (see notes 5.10 and 13)

The Company operates aircraft which are owned or held under finance or operating lease arrangements. Due to the scheduled periodic maintenance and the aircraft handback conditions stipulated in the contracts with the lessors, there is a commitment to perform certain major repairs over the term of the lease contracts, which gives rise to the recognition of a provision. As detailed in note 13.1 to the accompanying annual accounts, at 31 December 2021 the provision for major repairs relating to engine and aircraft maintenance amounts to Euros 697 million.

These aspects have required significant judgements by the Directors when determining the assumptions used to estimate the provision, such as those referring to the evaluation of aircraft utilisation hours, expected maintenance intervals, future maintenance costs and the condition of the aircraft when handed back, where applicable, which has led us to consider this area as one of the most relevant aspects of the audit.

Our main audit procedures included assessing the design and implementation of the key controls relating to the calculation of the provisions for scheduled aircraft maintenance, understanding the methodology, criteria and assumptions used to calculate the provisions for maintenance, reviewing the maintenance contracts and understanding the obligations derived therefrom and reviewing, for a sample of aircraft, the handback conditions as per the lease contracts, where applicable, and comparison with the assumptions used by the Company.

We also performed a retrospective analysis, comparing the amounts ultimately incurred in the repairs with the amounts of the provisions in prior years, in order to assess the degree of reliability of the estimates made by the Company.

We also assessed whether the disclosures in the accompanying notes to the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Matter

On 3 March 2021 other auditors issued their unqualified auditor's report on the annual accounts for 2020.

Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the non-financial information statement has been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the non-financial information mentioned in section a) above has not been provided in the manner stipulated in the applicable legislation, although we have verified that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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We communicate with the Directors of the entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated to the Directors of Vueling Airlines, S.A., we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the most significant risks.

We describe these risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on the original in Spanish)

Joan Manuel Plà Hernàndez
On the Spanish Official Register of Auditors ("ROAC") with nº 20351

2 March 2022

Vueling Airlines, S.A.

Annual Accounts and Management Report

For the year ended December 31, 2021

VUELING AIRLINES, S.A.

BALANCE SHEET

As at December 31, 2021

Expressed in Thousand Euros

ASSETS	Notes	2021	2020
NON-CURRENT ASSETS:			
Intangible fixed assets	**6**	**109,421**	**109,085**
Goodwill		6,167	7,709
Computer Software		84,850	78,784
Segments		18,404	22,592
Tangible fixed assets	**7**	**578,555**	**617,881**
Aircraft Components		33,867	34,159
Fleet		477,198	515,298
Other Tangible Fixed Assets		12,712	10,958
PPE under Construction and Advances		54,778	57,466
Investments in Group Companies and Associates	**9.1**	**64,641**	**64,812**
Long-Term Financial Investments	**9**	**100,112**	**84,752**
Other Financial Assets		90,041	79,207
Derivatives	**17**	10,071	5,545
Deferred Tax Assets	**18.5**	**189,040**	**211,437**
Total non-current assets		**1,041,769**	**1,087,967**
CURRENT ASSETS:			
Inventories	**5,15 & 10**	**52,633**	**31,161**
Trade and other receivables		**103,925**	**70,065**
Sales and services rendered	**9.2**	82,963	43,684
Group companies and associates	**16**	9,102	11,150
Public Authorities	**18.1**	11,860	15,231
Investments in group companies and associates		**-**	**45**
Loans to companies		-	45
Short-term financial investments	**9.2**	**349,685**	**426,569**
Derivatives	**17**	97,783	29,248
Other financial assets		251,902	397,321
Short-term accruals		**16,242**	**22,058**
Cash and equivalent liquid assets	**11**	**180,333**	**204,406**
Treasury		180,333	204,406
Total Current Assets		**702,818**	**754,304**
TOTAL ASSETS		**1,744,587**	**1,842,271**

EQUITY AND LIABILITIES	Notes	2021	2020
SHAREHOLDERS' EQUITY:			
Capital	**12.1**	**29,905**	**29,905**
Authorised capital		29,905	29,905
Share premium	**12.4**	**199,185**	**199,185**
Reserves		**85,251**	**90,652**
Legal	**12.2**	5,981	5,981
Other reserves		79,270	84,671
Prior years' losses		(785,262)	-
Loss for the year	**4**	**(350,023)**	**(785,262)**
Total Capital and Reserves		**(820,944)**	**(465,520)**
Adjustments for changes in value	**17**	**61,388**	**(104,452)**
Subsidies, donations and legacies received	**12.6**	**569**	**599**
Total net equity		**(758,987)**	**(569,373)**
NON-CURRENT LIABILITIES:			
Long-term provisions	**13.1**	**532,554**	**609,678**
Other provisions		532,554	609,678
Long-term payables		**734,351**	**800,038**
Payables to credit institutions		258,985	258,695
Derivatives	**17**	6,082	38,726
Other financial liabilities	**14,1**	469,284	502,617
Deferred tax liabilities	**18.6**	**32,737**	**14,254**
Long-term accruals	**15**	**61,086**	**76,886**
Total non-current liabilities		**1,360,728**	**1,500,856**
CURRENT LIABILITIES:			
Short-term provisions	**13.1**	**219,134**	**79,987**
Short-term liabilities		**103,786**	**229,935**
Payables to credit institutions		22	22
Derivatives	**17**	7,056	157,102
Other financial liabilities	**14.1**	96,708	72,811
Trade creditors and other payables	**14.1**	**632,726**	**430,598**
Trade payable		324,890	199,168
Group company suppliers	**16**	100,869	91,787
Sundry payables		152,100	119,320
Personnel		45,343	17,358
Other payables to Public Authorities	**18.1**	9,524	3,798
Advance payments from customers	**5.9**	-	(833)
Short-term accruals	**15**	**187,200**	**170,268**
Total current liabilities		**1,142,846**	**910,788**
TOTAL NET EQUITY AND LIABILITIES		**1,744,587**	**1,842,271**

Notes 1 to 26 described in the accompanying notes form an integral part of the balance sheet on December 31, 2021.

VUELING AIRLINES, S.A.

INCOME STATEMENT

For the annual period ended on December 31, 2021

Expressed in Thousand Euros

	Notes	2021	2020
CONTINUING OPERATIONS:			
Net turnover	**19.1**	**1,014,607**	**594,349**
Services rendered		1,014,607	594,349
Work done by the company for its assets	**6**	**2,430**	**2,489**
Supplies	**19.3**	**(230,844)**	**(179,689)**
Consumption of raw materials and other supplies		(230,844)	(179,689)
Other operating revenue	**19.4**	**51,553**	**38,113**
Personnel expenses	**19.5**	**(215,105)**	**(200.541)**
Wages, salaries and similar		(172,776)	(152.188)
Social Security contributions		(42,329)	(48,353)
Other operating costs	**19.6**	**(849,067)**	**(1,000,423)**
Outsourced services		(879,724)	(880,046)
Taxes		(806)	(757)
Loss, impairment and variation of trade provisions		31,463	(119,620)
Amortisation/depreciation of fixed assets	**6 & 7**	**(81,462)**	**(84,731)**
Results from disposals and other items		**1,102**	**(6,436)**
OPERATING LOSS		**(306,786)**	**(836,869)**
Financial income		**1,727**	**6,921**
From marketable securities and other financial instruments with third parties		1,727	6,921
Financial expenses		**(26,831)**	**(24,014)**
For payables to third parties		(26,831)	(24,014)
Changes in Fair Value of Financial Instruments		**36,431**	**(158,188)**
Exchange rate differences	**21**	**(48,023)**	**39,609**
FINANCIAL LOSS		**(36,696)**	**(135,672)**
Loss before tax		**(343,482)**	**(972,541)**
Corporation tax	**18.3**	**(6,541)**	187,279
LOSS FOR THE YEAR	**4**	**(350,023)**	**(785,262)**

Notes 1 to 26 described in the accompanying notes form an integral part of the income statement for the year ended December 31, 2021.

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN NET EQUITY

For the annual period ended on December 31, 2021

Expressed in Thousand Euros

	Notes	2021	2020
RESULT FROM THE INCOME STATEMENT (I)		**(350,023)**	**(785,262)**
Income and expenses recognised directly in net equity:			
For cash flow hedging	**17**	170,564	(106,052)
Tax effect		(42,551)	26,513
Subsidies, donations and legacies received	**12.6**	23,576	23,412
Tax effect		**(5,984)**	(5,853)
Total Income and expenses recognised directly in net equity: (II)		**145,605**	**(61,980)**
Transfers to the income statement:			
For cash flow hedging	**17**	50,556	(118,032)
Tax effect		(12,639)	29.508
Subsidies, donations and legacies received	**12.6**	(23,616)	(24,024)
Tax effect		5,904	6.006
Total transfers to the income statemetn (III)		**20,205**	**(106,542)**
Total Recognised income and expenses (I+II+III)		**(184,213)**	**(953,784)**

Notes 1 to 26 described in the accompanying notes form an integral part of the other statement of comprehensive income for the year ended on December 31, 2021.

VUELING AIRLINES, S.A.

STATEMENT OF CHANGES IN NET EQUITY

For the annual period ended on December 31, 2021

Expressed in Thousand Euros

	Share Capital	Share premium	Legal reserve	Goodwill reserve	Other reserves	Profit/loss for the previous year	Profit/loss for the year	Dividend on account	Adjustments for changes in value	Subsidies, donations and legacies	Total
Closing balance 2019 and opening balance 2020	**29,905**	**199,185**	**5,981**	**4,240**	**18,191**	**-**	**132,237**	**(70,000)**	**63,611**	**1,058**	**384,408**
Application of profit (loss) for 2019	-	-	-	-	62,240	-	(132,237)	70,000	-	-	3
Total recognised income and expenses	-	-	-	-	-	-	(785,262)	-	(168,063)	(459)	**(953,784)**
Closing balance 2020	**29,905**	**199,185**	**5,981**	**4,240**	**80,431**	**-**	**(785,262)**	**-**	**(104,452)**	**599**	**(569,373)**
Adjustments due to changes in accounting policies	**-**	**-**	**-**		(5,401)	**-**	**-**	**-**	5,401	**-**	**-**
Openening balance 2021	**29,905**	**199,185**	**5,981**	**4,240**	**75.030**	**-**	**(785.,62)**	**-**	**(99,051)**	**599**	**(569,373)**
Application of profit (loss) for 2020	-	-	-	-	-	(785,262)	785,262	-	-	-	-
Total recognised income and expenses	-	-	-	-	-	-	(350,023)	-	160,439	(30)	(189,614)
Closing balance 2021	**29,905**	**199,185**	**5,981**	**4,240**	**75,030**	**(785,262)**	**(350,023)**	**-**	**61,388**	**569**	**(758,987)**

Notes 1 to 26 in the accompanying notes to the annual accounts form an integral part of the statement of changes in net equity for the year ended December 31, 2021.

VUELING AIRLINES, S.A.

CASH FLOW STATEMENT

For the annual period ended on December 31, 2021

Expressed in Thousand Euros

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(142.667)**	**(579.690)**
Profit (loss) for the year before tax		**(343.482)**	**(972.541)**
Adjustments to profit (loss)		**85.631**	**374.363**
Amortisation/depreciation of fixed assets	**6 & 7**	81.462	84.732
Change in provisions	**13**	50.729	64.358
Profit/loss on disposals of Fixed Assets		(1.104)	6.436
Loss, impairment and variation of Trade provisions		(31.463)	119.620
Financial income		(1.727)	(6.921)
Financial expenses		26.831	24.014
Exchange rate differences	**21**	48.023	(29.994)
Hedging adjustment		(71.233)	91.429
Other income and expenses		(15.887)	20.689
Changes in working capital		**137.944**	**57.699**
Trade and other receivables	**9.2**	(18.541)	226.269
Changes in inventories		(35.162)	50.322
Trade and other payables		193.182	(43.333)
Other current liabilities		17.213	(172.218)
Other non-current assets and liabilities		(18.748)	(3.341)
Other cash flows used in operating activities		**(22.760)**	**(39.211)**
Interest payments		(24.265)	(8.696)
Interest received		1.727	3.806
Income tax received/paid	**18.2**	(222)	(34.321)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**124.340**	**200.288**
Operating profit (loss)			
Payments for investments		**(57.107)**	**(20.168)**
Intangible fixed assets	**6**	(33.747)	(28.859)
Tangible assets	**7**	(23.360)	(62.543)
Group Companies and Associates	**9**	-	(10.065)
Other current financial assets	**9**	-	81.299
Proceeds from divestitures		**181.447**	**220.456**
Tangible assets	**7**	15.734	225.705
Group Companies and Associates	**9**	171	(5.249)
Other short-term Financial assets	**9**	165.542	-
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES (III)		**(14.659)**	**253.194**
Collection and payment for financial instruments		**(14.659)**	**253.194**
Debts with credit entities	**8.2**	(144.171)	(37.846)
Collections due to debts with credit entities	**8.2**	129.512	291.040
EFFECT OF EXCHANGE RATE VARIATIONS (IV)	**21**	**8.913**	**(9.615)**
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(24.073)**	**(135.823)**
Cash or equivalents at the start of the year		204.406	340.229
Cash or equivalents at the end of the year	**21**	**180.333**	**204.406**

Notes 1 to 26 in the accompanying notes to the annual accounts form an integral part of the cash flow statement for the year ended December 31, 2021.

Vueling Airlines, S.A.

Notes to the Annual Accounts
For the year ended December 31, 2021

1. Company Activity

The Company Vueling Airlines, S.A. (hereinafter, Vueling or the Company) is a Company incorporated in Spain in 2004 in accordance with the Public Limited Companies Act, now the Capital Companies Act.

The Company's commercial activity consists of the operation and management of scheduled passenger air transport under the commercial name of Vueling.

Its registered office is in Barcelona, at the Mas Blau II Business Park, plaza del Pla de l'Estany, No. 5 (El Prat de Llobregat). The Company has permanent establishments in France, Italy and the Canary Islands. The Company mainly operates in Spain and the European Union. The functional currency of the Company is the Euro.

The Company is included within the group of companies led by International Consolidated Airlines Group, S.A. (herein referred to as IAG) with domicile in Spain. The consolidated Annual Accounts of IAG and the consolidated management report for 2020 were formulated on February 25, 2021 and filed with the Commercial Registry, along with the corresponding audit report. The consolidated Annual Accounts and the consolidated management report for 2021 will be filed in due time and form with the Commercial Registry, within the legally established deadline.

2. Basis for presentation of the Annual Accounts

2.1. Financial reporting legislation framework applicable to the Company

The Directors have prepared these Annual Accounts in accordance with the financial reporting legislation framework applicable to the Company, established in:

a) The Code of Commerce and other commercial legislation.
b) The General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, modified in 2021 by Royal Decree 1/2021, of January 12 as well as other commercial legislation in force and its sector adaptations.
c) The mandatory standards approved by the Institute of Accounting and Auditing in implementation of the General Chart of Accounts and its complementary standards.
d) Other applicable Spanish accounting legislation.

The figures included in the Annual Accounts are expressed in thousand Euros, unless otherwise stated.

2.2. True and fair view

The Annual Accounts have been obtained from the Company's accounting records and are presented in accordance with the financial reporting legislation framework applicable to the Company and the accounting principles and criteria contained therein, so that they give a true and fair view of the Company's net worth, financial position, results and cash flow during the year. These Annual Accounts have been prepared by the Company Directors and will be submitted to the General Shareholders' Meeting for approval. They are expected to be approved without any modifications.

The 2020 Annual Accounts were approved at the General Shareholders' Meeting held on 16 June 2021

2.3. Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. Furthermore, the Directors have prepared these Annual Accounts in accordance with all mandatory accounting principles and standards which have a significant effect on the Annual Accounts.

There is no mandatory accounting principle which has not been applied.

2.4. Critical aspects for measuring and estimating uncertainty

In preparing the Annual Accounts, the Company's Directors have used estimates to measure some of the assets, liabilities, revenue, expenses and commitments which are recorded therein. These estimations have been made based on the best information available at the close of the financial period. However, given the uncertainty inherent to these estimations, future events could arise over the coming periods leading to the need for modifying them, which would be carried out prospectively. These estimates basically refer to:

- The useful life of tangible and intangible assets (see Notes 5.1 and 5.2).
- The calculation of provisions and the present value of the provisions as well as the guarantees submitted (see Notes 5.10, 9 and 13).
- The market value of certain financial instruments (see Notes 5.4.3 and 17).
- The assessment of possible losses due to the impairment of certain financial assets (see Note 5.4.1).
- Deferred tax assets (see Note 5.8).

2.5. Information comparison

In accordance with commercial law, for comparative purposes, each of the items for 2021 in the balance sheet, the income statement, the statement of changes in net equity and the cash flows statement, are presented with those corresponding to the previous year. Quantitative information for the previous year is also included in the report, except when an accounting standard specifically establishes that it is not necessary.

The accounting principles and the main valuation standards used by the Company to prepare the annual accounts for the year are the same as those applied in the Company's annual accounts for the year ended December 31, 2020, except for the adoption of Royal Decree 1/2021, as well as by the adoption of the Resolution of February 10, 2021, of the Institute of Accounting and Auditing, which governs recording, valuation and preparation of the Annual Accounts for the recognition of income from the delivery of goods and the provision of services.

The main amendments refer essentially to the transposition into local accounting of a large part of the standards contained in IFRS-EU 9, IFRS-EU 15, IFRS-EU 7, and by IFRS-EU 13.

The impacts on the Company derived from the adoption of Royal Decree 1/2021 are:

Financial instruments

In relation to financial assets and liabilities, new criteria are introduced for their classification, valuation and derecognition, and new rules are introduced for hedge accounting.

The Company, in the first-time application of this standard, on January 1, 2021, has opted for the retrospective application for hedge accounting. As a result, an adjustment of 5,402 thousand Euros has been recorded in equity.

The impacts derived from the initial application have been the following:

Hedge accounting

The Company has chosen to apply hedge accounting included in the standard; however, it has not made any substantial changes to its hedge model, confirming that its current hedging relationships qualify as hedges in accordance with the adoption of the new standard. The Company records in a separate component of equity the time value of options, the forward element of a forward contract, and the foreign currency basis spreads of financial instruments in the case of exclusion from the hedging relationship.

2.6. Groups of headings

Certain items in the Balance Sheet, the Income Statement, the Statement of Changes in Net Equity and the Cash Flow Statement are grouped together to aid their understanding. However, material information has been broken down in the corresponding notes.

2.7. Changes in accounting criteria

There were no significant changes in accounting criteria in 2021 compared with the criteria applied in 2020 disclosed in the body of the report.

2.8 Effects of the COVID-19 pandemic and going concern

The situation of the Company has been considerably affected, since 2020, by the coronavirus (COVID-19). The global health emergency created by COVID-19 has had a significant impact on all of the Company's businesses, especially the airlines due to the drop in air traffic.

On 11 March 2020, the World Health Organization upgraded the public health emergency caused by the coronavirus outbreak (COVID-19) to an international pandemic. Developments at national and international level have resulted in an unprecedented health crisis that has impacted the macroeconomic environment and business performance. To address this situation, a series of measures have been adopted in 2020 and 2021 to deal with the economic and social impact, which, among other aspects, have entailed restrictions on the mobility of people.

Despite the improvement in activity experienced, the new outbreaks and the restrictive measures imposed by the governments of each country, the expected activity has not recovered, and the reduction in passengers has been 54.3% compared to pre-COVID 2019 levels.

On 31st December 2021, the Company has negative equity due to the accumulated losses during the years 2020 and 2021, as a direct consequence of the pandemic. In accordance with Royal Decree-Law 27/2021, which modifies article 13 of Law 3/2020, which replaced Royal Decree-Law 16/2020, of April 28, the need to re-establish the equity balance described is postponed in article 363 of the Capital Companies Law, bringing forward these losses to the losses of the 2022 financial year, at which time said capital need will be evaluated. At the end of the 2022 financial year, the Board of Directors will assess the different alternatives for rebalancing equity, which will be presented to the Shareholders for their approval.

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Company's results and cash flows. During 2021 the Directors of the Company continue to take measures to protect the Company's liquidity, including; cost savings due to furlough schemes (ERTE) – that have ended in February 2022 -; salary cuts adjusted to the decline in activity; an extension on the loan received from the Official Credit Institute of Spain (ICO) for a total amount of 262 million Euros; as well as other cost reduction and cash protection measures. At December 31, 2021, the Company had cash and interest-bearing deposits of €409 million and a further €40 million in undrawn lines of credit.

The Company estimates that passenger demand for the year 2022 will practically reach the levels of 2019. Consequently, the Company has applied estimates and judgments in the evaluation of the impact of COVID-19 in relation to the recognition and valuation of assets and liabilities in the financial statements.

The Company has modelled a three-year business plan, approved by the Board of Directors, that considers the latter's point of view on the impact and recovery of the COVID-19 pandemic on the Company and on business. The main assumptions underlying this business plan are the following:

- As part of the recovery, the Company has assumed a gradual easing of all travel restrictions, such as testing and quarantine requirements, and considering different geographical region and their policies, based on the deployment of vaccines during the year.

- Gradual recovery of regional capacity based on a reduction of -27% in the first quarter of 2022 compared to 2019, until reaching the same levels of 2019 in the second and third quarters. In the fourth quarter of 2022, the levels of 2019 are expected to improve slightly. The expected average in 2022 is -3% of activity if compared to 2019.

The Company expects to be able to continue securing the financing of future aircraft deliveries and, in addition, has other possible mitigation measures, including the sale of assets, which it would carry out in the event of an adverse liquidity situation.

Having reviewed the three-year Business Plan, the Board of Directors and Management have a reasonable expectation that the Company will have sufficient liquidity to continue operating for the foreseeable future and, therefore, continue to adopt the going concern principle. in the preparation of these annual accounts.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are beyond the Group's control, including: the status and impact of the pandemic around the world; the emergence of new variants and the potential resurgence of existing strains of the virus; the speed of deployment of vaccines around the world; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments regarding freedom of movement and travel. Therefore, the Group is not able to guarantee that a more serious negative scenario than those scenarios it has considered will not occur, including sensitivities in relation to the timing of the recovery from the COVID-19 pandemic, the capacity operated, the impact on performance, cost mitigations achieved, and the availability of aircraft financing to offset capital expenditures. In the event that this scenario were to occur, the Group would have to apply additional measures and probably additional financing to that contractually committed at the date of preparation of the annual accounts.

However, the Group cannot guarantee that it will be able to obtain additional financing, if necessary, in the event of a more severe negative scenario than those scenarios considered.

3. Business combination and other information

Merger with Clickair, S.A.

In 2009, the Company merged with Clickair, S.A. The transaction was structured by the Company as a takeover merger of Clickair, S.A.. The main economic reasons for the merge were to obtain significant revenue and cost synergies.

Appendix I of the 2009 Annual Accounts includes disclosures required by Law 43/1995.

As a result of this business combination, the Company accounted for Goodwill and other Intangible Asset which amounted to 20,861 thousand Euros at December 31, 2021 (26,075 thousand Euros at December 31, 2020) (See Note 5.1 and 6).

4. Application of losses

The application of losses for 2020 approved by the General Shareholders' Meeting held on 16 June 2021 is as follows:

	Thousand Euros
Prior year's losses	(785,262)
Total	**(785,262)**

The proposal for the application of losses for 2021 by the Company Directors, which will be submitted for approval at the General Shareholders' Meeting, is as follows:

	Thousand Euros
Prior year's losses	(350,023)
Total	**(350,023)**

For the sole purpose of determining the existence of the grounds for dissolution provided for in article 363.1.e) of the revised text of the Capital Companies Act, in accordance with Royal Decree-Law 27/2021, that modifies article 13 of Law 3/2020, which replaced Royal Decree-Law 16/2020, of April 28, losses for the financial years 2020 and 2021 shall not be taken into consideration. If the result for the financial year 2022 shows losses that reduce the net assets to less than half of the share capital, a general meeting must be called by the Directors or may be requested by any shareholder within two months of the end of the financial year, in accordance with article 365 of the aforementioned Act, to dissolve the company, unless the capital is increased or reduced sufficiently. Note 2.8)

4.1. Limitations on the distribution of dividends

The Company is obliged to transfer 10% of the profit from the year to the legal reserve, until this reserve amounts to at least 20% of the share capital. While this reserve has not yet reached 20% of the share capital, it cannot be distributed to the shareholders. At December 31, 2021 and 2020 the legal reserve is fully appropriated. (Note 12.2).

Having met the requirements of the law and the Company Articles of Association, dividends can be charged to net profits for the year, or to unrestricted reserves, if the value of net equity is not, as a result of such distribution, lower than the share capital. For these purposes, profits allocated directly to net equity may not be distributed either directly or indirectly. If there are losses from previous years that bring the value of the Company's share capital to below net equity, the profit will be used to offset said losses. In addition, due to the signing of the syndicated loan (Note 12.2), the Company will have limitation in the distribution of dividends until the loan is repaid.

5. Recognition and measurement standards applied

The main standards for recognition and measurement used by the Company in preparing the 2021 and 2020 Annual Accounts, in accordance with those established by the General Chart of Accounts, were as follows:

5.1. Intangible fixed assets

The intangible fixed assets are made up of Goodwill and Segments resulting from the merger with Clickair, S.A., segments purchased and computer software.

Generally, intangible fixed assets are initially measured at their acquisition price, production cost or fair value at acquisition date if they come from a business combination. They are subsequently measured at their cost less the corresponding accumulated amortisation and impairment losses.

Intangible fixed assets are systematically amortised following a straight-line method based on the estimated useful life of the assets and their residual value. The amortisation methods and periods applied are reviewed at the end of each year and, where applicable, are adjusted prospectively. The existence of impairment is evaluated at least at every year end, whereby the recoverable amounts are estimated and the applicable valuation adjustments are made.

Goodwill

Goodwill is initially valued at cost at the time of acquisition. This is the excess of the cost of the business combination regarding the fair value of the identifiable assets acquired less the liabilities assumed.

Goodwill appears in the assets when its value is clearly based on an onerous acquisition 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.

With effect as from January 1, 2016, in accordance with Royal Decree 602/2016, of December 2, 2016, the Goodwill is amortised applying the Straight-Line Method over a useful life of ten years.

At least annually, the Company assesses if there are signs of impairment of cash-generating units to which goodwill has been allocated. If so, the Company tests for any possible impairment.

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

Computer software

Under this heading, the Company records the costs incurred in the acquisition and development of computer software, including the costs of developing its website. 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 cost of the personnel that participate in the development of in-house software is recorded as an increase in the cost of the assets, recognising income on the Income Statement under the heading, Work Done by the Company for its Assets.

Segments

Under this heading, the Company records the value of the Segments resulting from the merger with Clickair, S.A. (see Note 3) as well as purchased Segments.

In accordance with Royal Decree 602/2016, of December 2, with effective date as from January 1, 2016, these assets are amortised applying the Straight-Line Method over a period of ten years.

Impairment of intangible fixed assets

Whenever there are indicators of impairment, the Company carries out an Impairment Test of affected assets. However, following the policy of the group to which the Company belongs, every year the Company estimates any possible impairment using an impairment test, which would reduce the recoverable amount of said assets to an amount lower than their carrying amount. Following this analysis, the Company has not recognised any impairment.

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

5.2. Tangible assets

Tangible assets is initially measured at the acquisition price or production cost and subsequently reduced by the corresponding accumulated depreciation and impairment losses, if applicable.

When delivered to the Company, aircrafts under ownership and finance lease are itemised between spare parts to be replaced, engines and scheduled maintenance events. This cost is depreciated on a Straight-Line Basis over the period between the delivery of the aircraft and the first scheduled maintenance event. The repair cost of these events is recorded as a higher cost of the assets and is depreciated in the period until the next scheduled event has been completed.

Repair and maintenance costs for the different elements composing Tangible Fixed Assets including minor aircraft maintenance activities, are charged to the Income Statement in the year incurred. In contrast, if the investment leads to an improvement in productivity, capacity or efficiency, or lengthens the useful life of assets then the investment is capitalised as an increase in the cost of the corresponding assets.

The Company depreciates its Tangible Fixed Assets on a Straight-Line Basis over the estimated useful life of the assets concerned at the following rates of straight-line annual amortisation:

	Estimated years of useful life
Aircraft components (*)	3 – 12
Fleet (hull)	23
Fleet (engines)	8
Information processing equipment	5 – 7
Technical facilities	8 – 10
Furniture	8 – 10
Property	50

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

The Company's Directors have not identified any problems regarding impairment of its Tangible assets at the end of the year.

Impairment of tangible fixed assets

At least at the year-end, the Company assesses the existence of signs of any non-current asset or, where applicable, any cash-generating unit having suffered impairment. If there are signs of this, their recoverable amounts are estimated.

The recoverable value is determined as the higher value between, fair value less costs to sell, and value in use. When the carrying amount exceeds the recoverable amount, this causes an impairment loss. The value in use is the present value of the expected future cash flows. For assets that do not generate cash flows, and that are, to a large extent, independent of those derived from other assets or group of assets, the recoverable amount is determined for the cash-generating units to which the assets belongs.

Value adjustments due to impairment losses and their reversal are recognised in the Income Statement. Value adjustments due to impairment are reversed when the circumstances leading to these cease to exist. The reversal of the impairment is limited by the carrying amount of the asset which would have appeared if the corresponding value impairment had not previously been recognised.

5.3. Leases

Leases are classified as finance leases whenever their conditions show that the risks and benefits inherent to the asset that is the subject matter of the contract are transferred to the lessee. Otherwise, leases are classified as Operating Leases.

The Company finances the purchase of certain aircraft by means of “Sale and leaseback” operations in which the aircraft is sold to a third party, a financial entity, and subsequently leases it back via Operating or Finance Lease agreements. The profits obtained for the sale of the aircraft, when the sale price exceeds the fair value, are recognised as an Advanced Income on liabilities in the short- and long-term accruals heading (Notes 15 and 8), deferring the revenue in the Income Statement for the duration of the aircraft's useful life which, unless stated otherwise, is the lease term of the aircraft.

Operating leases

The Company as lessee

The Company´s Operating Lease Contracts and, specifically, the Leasing Contracts for the aircraft were considered operating leases given that:

- Ownership of aircraft is not transferred at the end of the lease term.

- The lease term does not cover most of the economic life of the aircraft estimated at 23 years.
- At the beginning of the lease contract, the present value of the minimum payments agreed upon for the lease, does not comprise practically all the fair value of the leased asset.
- The aircraft subject to the lease are not susch special assets that their use is restricted to the Company.

Expenses derived from Operating Lease contracts are charged to the Income Statement in the year in which they are accrued and mainly correspond to aircraft leases paid in US Dollars.

Any amounts paid upon taking out an Operating Lease are treated as Advance Payments which are allocated to the Income Statement over the lease term as the benefits of the leased asset are 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 8.1).

The Company as lessor

In 2021, the Company sub-leased 1 aircraft to group companies under an Operating Lease Contracts (four aircraft in 2020).

Revenues derived from the Operating Lease Contract are recognised in the Income Statement in the year in which they are accrued. This revenue amounted to 518 thousand Euros in 2021 (5,637 thousand Euros in 2020).

Finance Leases

Lease Contracts are classified as Finance Leases whenever their economic conditions show that all the risks and benefits inherent to the asset that is the subject matter of the contract are transferred to the lessee. Otherwise, Lease Agreements are classified as Operating Leases.

In the classification analysis of leases, the Company considers the following aspects as indicators of the transfer of the risks and benefits of the leased asset:

- The lease term covers the majority of the economic life of the asset.
- The present value of the minimum lease payments is similar to the fair value of the asset.
- The special characteristics of the assets lead to its use being restricted to the lessee.
- There is a Purchase Option which may be executed upon the end of the lease period.

Assets acquired through Finance Leases are recorded according to their nature, at the lower value between the fair value of the asset and the present value of the minimum agreed payments calculated at the moment of the purchase, including the Purchase Option, recording a Financial Liability for the same amount. Contingent instalments, the cost of services and taxes payable by the lessee are not included in the calculation of the minimum agreed payments. The payments made for the lease are allocated between Financial Expenditure and Liability reduction. The total financial burden of the contract is transferred to the Income Statement for the period when they fall due, applying the effective interest rate method. The assets receive the same depreciation, impairment and derecognition criteria applied to other assets of the same nature.

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 derived 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 a 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.
- Short term bank deposit: money market investment funds.

Initial measurement

Financial Assets are initially recorded at the Fair Value of the consideration given plus the directly attributable transaction costs.

Subsequent measurement

Loans, Receivables and Investments Held to Maturity are measured at their amortised cost. Available-for-sale Financial Assets are recognised at Fair Value, without deducting directly attributable transaction costs.

Nevertheless, Commercial Credits maturing within one year that have no contractual interest rate, and Advances and Loans to the Personnel, which are expected to be received in the short term are initially measured at nominal amount, when the effect of updating the Cash Flow is not significant.

A Financial Asset Impairment Test will be performed at least once a year for Financial Assets not recognised at fair value. When the recoverable amount of the Financial Asset is lower than its carrying amount this will be considered objective evidence of impairment. 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 any corresponding value adjustments is to analyse the age of the Trade and Other Receivables and to impair those outstanding Receivables with a significant age or whose recovery is doubtful.

An Impairment reversal is recognised as income in the Income Statement and is limited to the carrying amount of the Financial Asset that would be recorded on the date of reversal had the Impairment Loss not been recognised.

The Company derecognises Financial Assets when they expire or the right over the corresponding Cash Flows of the Financial Assets are assigned and the risks and rewards inherent to their ownership have been transferred, such as the firm sale of Assets or assignments of Commercial Loans in factoring transactions in which the Company does not retain any credit or interest rate risk.

If the Company has not substantially assigned or retained the risks and rewards of the Financial Asset, this is derecognised when control is not retained. If the Company maintains control over the Asset, it continues to recognise it for the value to which it is exposed due to variations in value of the assigned Asset, that is, due to its continued use, recognising the associated Liability.

The difference between the consideration received net of the attributable Transaction Costs, taking into consideration any new Asset obtained less any Liability assumed, and the carrying amount of the transferred Financial Asset, plus any accumulated amount which has been directly recognised in Net Equity, determines the profit or loss derived from derecognising the Financial Asset and is part of the result for the financial period in which this takes place.

The Company does not derecognise Financial Assets in the assignments in which it substantially retains the risks and rewards inherent to its ownership, such as discounted bills, "factoring" operations, sale of Financial Assets with repurchase agreement at a fixed price or at the sale price plus interest and the securitisations of Financial Assets where the Company retains subordinated financing or another type of guarantee which substantially absorbs all expected losses. In these cases, the Company recognises a financial liability for an amount equivalent to the consideration received.

Interest on financial assets accrued subsequent to the acquisition are recorded as income in the Income Statement using the effective interest rate method.

Hedging Derivatives

This includes Financial Derivatives classified as Hedging Instruments. The Financial Instruments that have been classified as Hedging Instruments or as Hedged Items are valued according to the provisions of Note 5.4.3.

Cash and equivalent liquid assets

This heading includes cash, current accounts and deposits in banks and temporary purchases of assets that comply with all the following requirements:

- They can be converted into cash.
- At the time when they are acquired, they are due to mature within three months.

- They are not subject to a significant risk of changes in value.
- They are part of the Company's normal treasury control policy.

For the purpose of the Cash Flow Statement, the occasional overdrafts which form part of the Company's cash management are included as deductions from Cash and Equivalent Liquid Assets.

5.4.2. Financial liabilities

Financial Liabilities are the Company's debts and payables which result from the purchase of goods and services for the Company's operations, and those which, whilst not being Commercial, cannot be considered as Derivative Financial Instruments.

Debts and 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. Interest accrued is recognised in the Income Statement, applying the effective interest rate method.

Nevertheless, Commercial Liabilities maturing within one year that have no contractual interest rate, and disbursements required by third parties on investments, expected to be paid in the short term are measured at nominal amount, when the effect of updating the Cash Flow is not significant.

The Company derecognises Financial Liabilities when the obligations which have generated them expire.

5.4.3 Derivative financial instruments

The Company carries out cash flow hedging operations for anticipated fuel purchases, cash flow hedging operations for advance payments in foreign currency for different concepts (fleet leasing, aircraft maintenance, etc.), as well as hedging cash flows from aircraft lease contracts.

Financial derivatives are recognised at fair value on the contract date, and are successively recalculated at fair value. The method for recognising the gain or loss depends on whether the derivative is classified as a hedging instrument, and in this case, the nature of the asset being hedged.

The Company aligns its accounting with the financial risk management it carries out. Periodically, the risk management objectives and the hedging strategy are reviewed, making a description of the risk management objective pursued.

For each hedging transaction to be considered effective, the Company documents that the economic relationship between the hedging instrument and the hedged item is aligned with its risk management objectives for the entity.

The market value of the different financial instruments is calculated using the following procedures:

- For derivatives listed on an organized market, at their price at year-end (Level 1).
- In the case of derivatives not traded on organized markets, due to discounting cash flows, based on market conditions at the end of the year or, in the case of non-financial items, on the best estimate of the future price curves of said elements (Levels 2 and 3).

Fair values are adjusted for the expected impact of observable counterparty credit risk in positive valuation scenarios and the impact of observable own credit risk in negative valuation scenarios.

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives, only when their economic characteristics and inherent risks are not closely related to the instruments in which they are embedded and the whole amount is not being accounted for at fair value through profit or loss.

For accounting purposes, transactions are classified as follows:

Derivatives that qualify for hedge accounting

Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recognized in equity. The profit or loss corresponding to the non-effective part is immediately recognised in the Income Statement.

When option contracts are used to hedge forecast transactions, the Company designates only the intrinsic value of the option contract as the hedging instrument.

The amounts accumulated in equity are transferred to the Income Statement in the year in which the hedged item affects profit or loss as follows:

- The gain or loss corresponding to the effective part of the interest rate swaps is recognized in financial expense at the same time as the interest expense on the hedged loans.

- When a hedging instrument hedges a forecast transaction, the accumulated amounts remain in equity until the forecast transaction occurs. When the forecast transaction does not occur, the amount accumulated in equity is immediately reclassified to income for the period.

However, if that amount is a loss, and for the amount that is not expected to be recovered, it will be reclassified immediately in the Income Statement as a reclassification adjustment.

If the hedged item subsequently results in the recognition of an asset, the amount accumulated in the equity will be recognised at the initial cost of the asset.

Derivatives that do not qualify for hedge accounting

Certain derivatives do not meet the criteria to apply hedge accounting. Changes in the fair value of any derivative that does not qualify for hedge accounting are immediately recognized in the Income Statement.

Likewise, derivatives on commodities not considered for accounting purposes as hedges are recorded in operating income, since they essentially constitute an economic hedge as there is a coincidence between the critical terms of the derivative and its economically hedged item.

5.5. Transactions with related parties

The Company considers International Consolidated Airlines Group, S.A. and all its subsidiaries as related parties (see Note 16), likewise, the Directors and senior management are also considered related parties.

The Company values transactions with related parties at Market Price. The Directors of the Company consider that the transactions with related parties are valued at market prices.

5.6. Classification between current and non-current

Current Assets and Liabilities include those items which the Company expects to sell, pay, consume or realise during a normal operating cycle. They also include 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 operational 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 using market exchange rates generally accepted in the airline industry.

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.

On their initial recognition, foreign currency transactions are converted at the Exchange Rate current on the date of the transaction.

Non-Monetary Headings recorded at their fair value are valued at the Exchange Rate on their determination date. Exchange Rate differences are recorded in the Income Statement, except when the variation in value of the Non-Monetary Heading is recorded in Net Equity, in which case the corresponding Exchange Rate differences are also recorded in Net Equity.

5.8. Corporate Income Tax

The expense or revenue for Corporate Income 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 Current Tax is the amount paid by the Company as a result of settlement of Corporate Income Tax on profits relating to a financial period. Deductions and other tax benefits in the tax sum, excluding withholdings and payments on account, as well as tax losses offset against previous years and effectively applied in this year, reduce the current tax sum.

Deferred Tax costs or income correspond to recognition and cancellation of Deferred Tax Assets and Liabilities. These include temporary differences that are amounts that may become payable or recoverable deriving from differences in the carrying amounts of Assets and Liabilities and their tax value, as well as tax losses pending to be offset and credits for non-applicable tax deductions. These amounts are recorded applying the temporary or credit difference corresponding to the tax rate at which they are expected to be recovered or settles.

Deferred Tax Liabilities are recognised for all taxable temporary differences, except those derived from the initial recognition of Goodwill or from other assets and liabilities in a transaction which does not affect the taxable profit or the accounting profit and is not a business combination.

Deferred Tax Assets are only recognised when it is considered the Company will have future fiscal gains against which these may be made effective.

Deferred Tax Assets and Liabilities, originating from direct charges or payments in equity accounts, are recorded with a balancing entry in Net Equity.

At the end of each financial year, the Deferred Tax Assets are reconsidered and adjusted to the extent that there are doubts as to their future recovery. Likewise, at the end of each financial year, the Deferred Tax Assets not recognised in the Balance Sheet are evaluated with a view to recognising to what extent it is possible they will be recovered with future tax profits.

To determine the amounts of the Deferred Tax Assets that can be recognised, the Directors estimate the amounts and the dates on which they will obtain future fiscal gains and the recovery of the temporary tax differences. The Company has recorded Deferred Tax Assets as of December 31, 2021, for 189,040 thousand Euros (211,436 thousand Euros as of December 31, 2020) corresponding to the deductible temporary differences and hedge accounting (Note 15). At December 31, 2021, the Company has generated tax losses carry forward amounting 402,068 thousand Euros and tax credits amounting to 4,513 thousand Euros (Note 18).

5.9 Income, expenditure and accruals

Income and Expenses are recognised according to the accounting principle of accrual, i.e., when the real flow of goods and services they represent takes place, regardless of the time when the monetary or financial flow occurs. 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 deducting trade discounts and taxes.

The amount received from customers as Advance Payments for future flights for tickets which have been issued and paid for is recorded under the heading "Short-term accruals" under Liabilities in the accompanying Balance Sheet.

The heading "Advance Payments from Customers" under Liabilities in the Balance Sheet records the payments received for bookings and Advance Payments for certain tickets which have not yet been issued.

Interest received on Financial Assets is recognised using the Effective Interest Rate Method.

The short- and long-term accruals headings also include revenue obtained from the Sale and Leaseback transactions carried out by the Company, transferred to the Income Statement using the Accrual Basis over the duration of the leases for the different aircraft (see Note 5.3 & 15).

5.10 Provisions and contingencies

On preparing the accompanying Annual Accounts, 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 and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not within the control of the Company.

The Annual Accounts 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 Annual Accounts, although they are disclosed in the notes if they are not considered remote (see Note 13).

Provisions are measured at present value of the best 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 provisions are recognised in the Income Statement.

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 the amount of the corresponding provision.

Provisions for scheduled aircraft maintenance

The Expense derived from scheduled maintenance checks (general aircraft and engine checks) is accrued based on the flight hours/cycle and days elapsed in accordance with the clauses contained in the Aircraft Lease Contracts and Maintenance Contracts.

The Company records the Expense for the commitment based on flight hours/cycles and days elapsed. The amount of the provision for aircraft maintenance is calculated according to the approved Maintenance Schedule and based on flight hours/cycles or days elapsed, bearing in mind the time of the aircraft's use cycle, and based on the estimated cost for the next scheduled check. Changes in provisions for maintenance derived from changes in the payment amount or time structure are recorded in the Income Statement prospectively.

For some of the agreements established between the Company and aircraft lessors, the costs of these checks are paid periodically to the lessor as a guarantee. As with the provision, the Company records the guarantees given at their Present Value. When the Company carries out the periodic checks and provides evidence to the lessors of the aircraft, the lessors return the guarantee amounts which the Company had previously paid in advance.

Provision for Greenhouse Gas Emission Allowances

The Company records the expense incurred for Greenhouse Gas Emission based on its fuel consumption, expressed in Metric Tons, multiplied by the conversion factor of 3.15, valuing it at the Average Cost.

If the price of the Greenhouse Gas Emission Rights is lower than the average price recorded by the Company, impairment of the asset and the initial provision must be recorded.

The aforementioned provision will be settled in the following year.

5.11 Transactions with payments in equity instruments

The Company classifies its Stock Option Plans for Directors and employees depending on how the transaction is settled. In this sense, all the stock plans are settled through shares of the parent company of the IAG Group, which recharges the cost to the Company: Personnel expenses are determined based on the fair value of the options to be delivered on the date of the concession agreement.

Personnel expenses are recognised as the services are provided in the stipulated three-year period and considering a low turnover. In addition, the impact of the cost is recorded which, given that it has been calculated based on the fair value of the stock options at the date of the concession agreement, coincides with the accrued personnel expense. This cost is recorded by charging to "Other contributions from partners" with a credit to "Non-current payables to group companies and associates". The fair value of the stock options established on the date of the concession agreement is not modified.

5.12 Capital assets of an environmental nature

Assets of an environmental nature are goods used in a lasting manner for the Company's activities, whose primary function is to minimise environmental impact and to protect and improve the environment, including reducing or eliminating future contamination.

Directive 2008/101, of 19 November 2008, amends Directive 2006/87/EC to include aviation activities in the scheme for Greenhouse Gas Emission Allowance Trading within the EU as from 1 January 2012. Aircraft operators will be responsible for complying with the obligations imposed by the Directive, including the obligation to prepare a monitoring plan, submit specific information as from 1 January 2010 and monitor and report emissions generated.

The Company has complied with each and every one of the obligations imposed by the Directive.

5.13 Severance pay

Pursuant to prevailing legislation, the Company is obliged to meet its severance pay obligations to those employees it dismisses under certain conditions. Hence, the reasonable amount of severance pay is quantified and recorded as an Expense in the year in which the decision for the dismissal is made and a valid expectation *vis-à-vis* third parties is created regarding this dismissal. The attached Annual Accounts do not contain any significant provision under this heading, since significant events of this nature are not expected.

5.14 Subsidies, donations and legacies

The Company uses the following criteria to account for Subsidies, Donations and Legacies received:

- Non-Refundable Subsidies, donations and legacies: 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/depreciation of the subsidised items in the year or, as the case may be, at the time of their disposal or impairment adjustment.
- Refundable Subsidies: While they remain refundable, they are recorded as Liabilities.
- Operating Subsidies: These are credited to 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 recognised in those years. If they are granted in order to finance specific expenses, they will be recognised as the expense is accrued. Under this heading, the Company has recorded the amount of the Subsidy resulting from Greenhouse Gas Emission Allowances assigned free of charge (see Note 12.6).

In addition, Subsidies, Donations and Legacies received from Shareholders or owners do not constitute revenue and must be directly recorded in Capital and Reserves, irrespective of the type of Subsidy, providing it is not refundable.

The Company has benefited from the aid derived from the temporary employment regulation files (ERTE), provided for in Royal Decree-Law 8/2020, of March 17, on extraordinary urgent measures to deal with the economic and social impact of the COVID-19. For these purposes, the Company recognizes the business contribution to Social Security of employees temporarily suspended from employment, reduced working hours, or reinstated for its full amount, as an expense based on its nature and a subsidy for the subsidized part based on the criteria indicated in note 19.5.

5.15. Inventories

This heading includes the spare engine aircraft parts, consumables and Greenhouse Gas Emission Allowances.

Spare Engine Aircraft Parts are valued at acquisition cost and are derecognised according to technical obsolescence or inability for use.

The Company records the value of the Greenhouse Gas Emission Allowances necessary for its operations in accordance with the 2008 EU agreement whereby all flights taking off and landing in the EU will be included within the EU Emissions Trading System (EU ETS) as from 1 January 2012 (see Note 10). The Company values Greenhouse Gas Emission Allowances using the weighted average cost method.

When the net realisable value of these inventories is lower than its acquisition cost, an impairment is recognised as a cost in the Income Statement.

6. Intangible fixed assets

Details of and movements in the different items comprising intangible fixed assets are as follows:

2021 Financial Year

	Cost				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Goodwill	15,419	-	-	-	15,419
Computer software	192,457	33,747	-	-	226,204
Segments	41,880	-	-	-	41,880
Total cost	**249,756**	**33,747**	**-**	**-**	**283,503**

	Amortisations				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Goodwill	(7,710)	(1,542)	-	-	(9,252)
Computer software	(113,673)	(27,681)	-	-	(141,354)
Segments	(19,288)	(4,188)	-	-	(23,476)
Total cost	**(140,671)**	**(33,411)**	**-**	**-**	**(174,082)**

	Total intangible fixed assets	
Thousand Euros	Opening balance	Closing balance
Cost	249,756	283,503
Amortisations	(140,671)	(174,082)
Net Total	**109,085**	**109,421**

2020 Financial Year

	Cost				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Goodwill	15,419	-	-	-	15,419
Computer software	163,598	28,859	-	-	192,457
Segments	41,880	-	-	-	41,880
Total cost	**220,897**	**28,859**	**-**	**-**	**249,756**

	Amortisations				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Goodwill	(6,168)	(1,542)	-	-	(7,710)
Computer software	(88,249)	(25,424)	-	-	(113,673)
Segments	(15,100)	(4,188)	-	-	(19,288)
Total cost	**(109,517)**	**(31,154)**	**-**	**-**	**(140,671)**

	Total intangible fixed assets	
Thousand Euros	Opening balance	Closing balance
Cost	220,897	249,756
Amortisations	(109,517)	(140,671)
Net Total	**111,380**	**109,085**

Computer software

The additions in 2021 mainly correspond to the cost incurred in developing computer software and the website amounting to 33,747 thousand Euros (28,859 thousand Euros in 2020), of which a total of 2,430 thousand Euros correspond to work performed by staff of the Company itself (2,488 thousand Euros in 2020).

Segments

Under the heading "Segments", the Company records 36,732 thousand Euros as the fair value of the traffic rights resulting from the merger with Clickair, S.A. (Notes 3 and 5.1).

On December 31, 2021 the Company had Intangible Fixed Assets which were fully amortised amounting to 100,566 thousand Euros (82,427 thousand Euros in 2020).

7. Tangible fixed assets

The details and movements of the different items comprising Tangible fixed assets are as follows:

2021 Financial Year

	Cost				
Thousand Euros	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Closing balance**
Aircraft components	88,380	2,902	(6,934)	2,484	86,832
Property	199	-	-	-	199
Technical facilities	4,891	726	-	-	5,617
Furniture	1,170	558	-	-	1,728
Information processing equipment	13,627	3,643	-	-	17,270
Fleet	574,190	-	-	-	574,190
Property, plant and equipment under construction and advances	57,466	15,530	(15,738)	(2,484)	54,778
Total cost	**739,923**	**23,359**	**(22,672)**	**-**	**740,610**

	Depreciation				
Thousand Euros	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Closing balance**
Aircraft components	(46,648)	(16,746)	6,934	6,372	(50,088)
Property	(8)	(4)	-	-	(12)
Technical facilities	(903)	(508)	-	-	(1,411)
Furniture	(482)	(146)	-	-	(628)
Information processing equipment	(7,536)	(2,515)	-	-	(10,051)
Fleet	(58,892)	(28,132)	-	(9,967)	(96,992)
Total depreciation	**(114,469)**	**(48,051)**	**6,934**	**(3,595)**	**(159,180)**

Thousand Euros	**Impairment**				
	Opening balance	**Additions**	**Disposals**	**Transfers**	**Closing balance**
Aircraft components	(7.573)	-	1.104	3.595	(2.874)
Total Impairment	**(7.573)**	**-**	**1.104**	**3.595**	**(2.874)**

	Total tangible fixed assets	
Thousand Euros	**Opening balance**	**Closing balance**
Cost	739,923	740,610
Depreciation	(122,042)	(162,055)
Net Total	**617,881**	**578,555**

2020 Financial Year

	Cost				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Aircraft components	76,555	1,926	(50)	9,949	88,380
Property	199	-	-	-	199
Technical facilities	1,959	2,931	-	-	4,890
Furniture	809	361	-	-	1,170
Information processing equipment	13,233	395	-	-	13,628
Fleet	603,677	-	(39,049)	9,562	574,190
Property, plant and equipment under construction and advances	203,498	56,930	(183,451)	(19,511)	57,466
Total cost	**899,930**	**62,543**	**(222,550)**	**-**	**739,923**

	Depreciation				
Thousand Euros	Opening balance	Additions	Disposals	Transfers	Closing balance
Aircraft components	(15,615)	(31,162)	129	-	(46,648)
Property	(4)	(4)	-	-	(8)
Technical facilities	(598)	(305)	-	-	(903)
Furniture	(383)	(99)	-	-	(482)
Information processing equipment	(5,123)	(2,413)	-	-	(7,536)
Fleet	(39,990)	(19,594)	692	-	(58,892)
Total depreciation	**(61,713)**	**(53,577)**	**821**	**-**	**(114,469)**

	Impairment		
Thousand Euros	Opening balance	Additions	Closing balance
Aircraft components	-	(7,573)	(7,573)
Total impairment	**-**	**(7,573)**	**(7,573)**

	Total tangible fixed assets	
Thousand Euros	Opening balance	Closing balance
Cost	899,930	739,923
Depreciation	(61,713)	(122,042)
Net Total	**838,217**	**617,881**

The assets included in the Fleet heading have been acquired mainly under a finance lease regime (see Note 8.2).

The additions of Property, Plant and Equipment Under Construction and Advances includes advanced payment for 14,6 million Euros, equivalent to 16,5 million US Dollars, (55 million Euros, equivalent to 63 million US Dollars, as of December 31, 2020). which is part of the original Fleet Order of 80 aircraft and purchase options to acquire additional 58 aircraft At December 31, 2021, 22 aircraft are pending to be delivered and no purchase option has been exercised.

No aircraft have been received during the year (in 2020 a total of 3 aircraft were received, all under operational Sale and Leaseback contracts).

The disposals in 2021 mainly correspond to pre-delivery payments recovered due to changes in the aircraft delivery schedule agreed with suppliers.

In the 2020 financial year, the Company recorded an impairment of aircraft components amounting to 7,573 thousand Euros in the Income from Disposals and Others line in the Income Statement. This impairment corresponded to the book value of improvements made to 14 leased aircraft that, due to the COVID-19 pandemic, were not expected to be used before the date of return to the lessor. In addition to the impairment of assets, a provision was also recorded to meet the contractual obligations for rentals and maintenance costs amounting to 94,742 thousand Euros recorded in the line "Losses, Impairment and Changes in Trade Provisions ".

In the 2021 financial year, the Company has recorded a reversal of the impairment of aircraft components amounting to 1,104 thousand Euros in the Income from Disposals and Others line in the income statement. This reversal corresponds to the net book value of 4 of the aircraft mentioned in the previous paragraph that have been considered necessary for operations considering the latest forecasts made by the Company.

The fully depreciated tangible assets as of December 31, 2021 amount to 25,078 thousand euros (25,606 thousand euros in 2020).

The Company's policy is to take out insurance policies to cover the net book value of Tangible Fixed Asset items.

8. Leases

8.1. Operating leases

The Company's most significant operating lease contracts correspond to aircraft Operating Leases.

At the end of year 2021, the Company had agreements with aircraft lessors for the following minimum lease payments in US Dollars, in accordance with the agreements currently in force, without taking into account the impact of other expenses, future CPI increases or future income updates contractually agreed:

Thousand US Dollars	**2021**	**2020**
Less than one year	305,667	308,400
Between one and five years	792,816	814,386
More than 5 years	222,752	308,374
Total	**1,321,235**	**1,431,160**

The exchange value in Euros of the committed payments as of December 31, 2021, at the year-end exchange rate is 1,162,036 thousand Euros (1,182,179 thousand Euros as of December 31, 2020).

As of December 31, 2021, the Company had not formalised any Operating Lease Contracts for aircraft entering into operation during 2022 (no aircraft were planned entry into operation in 2021 at the end of the 2020 financial year).

The aircraft operating lease expense recorded in 2021 amounts to 250,828 thousand Euros (265,421 thousand Euros in 2020).

The average number of aircraft operating in 2021 was 127 (with an average of 129 aircraft in 2020), As of December 31, 2021, the Company has 112 leased aircraft (116 aircraft as of December 31, 2020).

The Company has not financed any aircraft in 2021.

8.2. Finance leases

The net book value of the aircraft acquired under finance leases as of December 31 is as follows (see Note 7):

Thousand Euros	**2021**	**2020**
Cost	555,587	564,628
Depreciation	(91,925)	(67,483)
Total	**463,662**	**497,145**

The amount for which the finance lease assets were initially recognised was the present value of the minimum payments to be made upon signing the corresponding contract.

The reconciliation between the total amount of the minimum future payments and their present value at December 31 is as follows:

Thousand Euros	2021		2020	
	Minimum future payments	**Present value (Note 14,1)**	**Minimum future payments**	**Present value (Note 14,1)**
Less than one year	40,269	39,087	40,361	38,666
Between one and five years	218,523	206,978	174,563	165,622
More than 5 years	278,021	262,156	355,654	336,852
Total	**536,813**	**508,221**	**570,578**	**541,140**

The finance lease contracts have the following features:

- The lease terms are for 10 years and ends between 2025 and 2030.
- The interest rate is EURIBOR + spread between 0.3% and 1.10%
- The preservation and maintenance costs are paid for by the lessee.
- The finance lease contracts signed by the Company are formalised in Euros, dollars and Japanese yen.
- The amount of the purchase option is the equivalent to the last instalment of the finance lease contract plus the interest accrued to date by said option. The value of these purchase options ranges between 8million Euros and 13 million Euros at the year-end exchange rate. There are no contingent instalments.

9. Financial investments

9.1. Long-term financial investments

The breakdown of the long-term financial investments at December 31, 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Loans, deposits and other receivables	154,682	144,019
Derivatives (Note 17)	10,071	5,545
Total	**164,753**	**149.564**

Investments in Group Companies and Associates have been included under the heading "Long-term financial investments". The maturity breakdown of this heading is as follows:

2021 Financial Year

Thousand Euros	2023	2024	2025	2026	2027 and subsequent years	Total
Loans, deposits and other receivables	8,498	59,505	64,849	13,716	8,114	154,682
Derivatives	9,968	25	49	29	-	10,071
Total	**18,466**	**59,530**	**64,898**	**13,745**	**8,114**	**164,753**

2020 Financial Year

Thousand Euros	2022	2023	2024	2025	2026 and subsequent years	Total
Loans, deposits and other receivables	11,067	664	60,877	52,121	19,290	144,019
Derivatives	4,426	1,119	-	-	-	5,545
Total	**15,493**	**1,783**	**60,877**	**52,121**	**19,290**	**149,564**

"Loans, deposits and other receivables" includes:

- Guarantees delivered to the lessors of the aircraft attributable to the payments on account made as part of the Aircraft Maintenance Program and to the future compensatory amounts with the aircraft lessors amounting to 85,889 thousand Euro (74,831 thousand Euro in 2020). The deposits paid to the lessors of aircraft are guarantees for the payments of the maintenance to be performed on the aircraft operated, for which the Company is making the corresponding provision which is shown as part of the non-current liabilities (see Note 13.1) and will be recovered once the Company has carried out said maintenance and provided certification that it has taken place to the lessor.

- Payments to guarantee payment of aircraft leases amounting to 1,433 thousand Euro (1,425 thousand Euros in 2020).

- Credits received amounting to 759 thousand Euros (1,578 thousand Euros in 2020).

- Security deposits given to airports and other suppliers amounting to 1,960 thousand Euros (2,153 thousand Euros in 2020).

- Loan totaling 40,000 thousand Euros granted by the Company to its shareholder Veloz Holdco, S.L.U. in the year 2018, whose annual interest rate is 3.545% and its maturity date is set for the month of June 2023. As of December 31, 2021, the outstanding balance of principal and interest amounts to 41,393 thousand Euros (41,457 thousand Euros as of December 31, 2020).

- Loan totaling 12,500 thousand Euros granted by the Company to its shareholder Veloz Holdco, S.L.U. during the year 2019, whose annual interest rate is 1.73% and its maturity date is set for the month of June 2024. As of December 31, 2021, the outstanding balance of principal and interest amounts to 12,590 thousand Euros (12,590 thousand Euros as of December 31, 2020).

- Loan totaling 10,000 thousand Euros granted by the Company to its shareholder Veloz Holco S.L.U. during the year 2020, whose annual interest rate is EURIBOR + 2.28% and its maturity date is set for the month of February 2025. As of December 31, 2021, the outstanding balance of principal and interest amounts to 9,966 thousand Euros (10,088 thousand Euros as of December 31, 2020).

9.2. Short-term financial instruments

A breakdown of the Financial Assets as of December 31, 2021 and 2020 is as follows:

	Debt securities		**Credits, derivatives and others**		**Total**	
Thousand Euros	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Held-to-maturity investments	-	-	16,500	16,684	16,500	16,684
Short term deposits	212,095	365,895	-	-	212,095	365,895
Loans, deposits and other receivables	-	-	127,231	84,852	127,232	84,852
Hedging derivatives (Note 17)	-	-	97,783	29,248	97,783	29,248
Total	**212,095**	**365,895**	**241,514**	**130,784**	**453,610**	**496,679**

These amounts are included in the following balance headings:

	Debt securities		**Credits, derivatives and others**		**Total**	
Thousand Euros	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Trade receivables for sales and services rendered	-	-	82,963	43,684	82,963	43,684
Trade receivables, group companies and associates	-	-	9,102	11,150	9,102	11,150
Trade receivables Public Authorities	-	-	11,860	15,231	11,860	15,231
Investments in group companies and associates	-	-	-	45	-	45
Short-term financial investments	212,095	365,895	137,637	60,674	349,685	426,569
Total	**212,095**	**365,895**	**241,514**	**130,784**	**453,610**	**496,679**

The heading "Held-to-maturity investments" corresponds to fixed-term deposits with a maturity of more than 3 months deposited with banks that serve as a return on available cash surpluses, the amount of which does not differ significantly from their fair value. This item amounts to 16,500 thousand Euros as of December 31, 2021 (16,684 thousand Euros as of December 31, 2020).

"Short-term deposits" relate to deposits in money market investment funds totalling 212,095 thousand Euros (365,895 thousand euros as of December 31, 2020). These deposits are subject to the market interest rate.

The heading "Loans, guarantees and receivables" includes advances given to aircraft lessors corresponding to amounts given on account of the maintenance programme of leased aircraft and future amounts to be compensated by aircraft lessors totalling to 23,292 thousand Euros (9,278 thousand euros as of December 31, 2020), which are expected to be recovered in a period of less than 12 months as the maintenance has already been performed or is expected to be performed and recovered within 1 year. Also included under this heading are amounts receivable from customers, group companies and public administrations of Euros 103,939 thousand (75,574 thousand Euros as of December 31, 2020) A short-term financing facility for group companies is included under the heading "Investments in group companies and associates". As of December 31, 2021, no amounts of the short-term loan are included under this heading (45 thousand Euros in 2020).

9.3. Information on the nature and level of risk of the financial instruments

The Company's financial risk is managed due to the Finance Department and the Board of Directors, which have established the mechanisms necessary to control exposure to changes in exchange rates, interest 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

The Credit Risk is generated by the possible loss caused by the breach of the contractual obligations of the Company's counterparties, that is, by the possibility of not recovering the Financial Assets for the amount accounted for and within the established term.

Except for the guarantees given to the aircraft lessors and the investments in banking entities of recognised solvency, the Company does not have a significant Credit Risk given the low concentration of its Accounts Receivable and the high volume of on-line sales. Sales to Retail Customers are made in cash or by credit card. Payment for sales to Travel Agencies is partially collected at the time of booking and the rest before the flight date.

Direct sales to passengers are made through credit cards and other alternative means of payment or in cash. Sales through Travel Agencies are also made through IATA’s (International Air Transport Association) BSP (Billing Settlement Plan) or by credit card and other means of alternative payment. As of December 31, 2021 and 2020 there are no significant balances overdue more than 180 days.

The Company's Directors consider that there is no significant Credit Risk related to the Accounts Receivable as of December 31, 2021 and 2020.

The Company´s and the sector standard practice is to collect payment for the tickets before the flight takes place.

Regarding to Derivative Financial Instruments and Bank Deposits, the counterparties are to a large extent Spanish financial institution with high credit quality and, as a result, Insolvency Risk is considered unlikely.

Liquidity risk

Liquidity Risk is caused by the possibility that the Company does not have liquid funds, or access to them, in sufficient amounts and at an adequate cost, to address its payment obligations.

The Company carries out prudent management of liquidity risk based on holding sufficient cash, short-term financial investments and marketable securities, the availability of committed credit financing and sufficient capacity to liquidate market positions.

In order to meet the cash requirements derived from COVID-19, on 30 April 2020, the Company signed an ICO-guaranteed syndicated loan for an amount of 262,000 thousand Euros with a grace period of three years (note 14).

Market risk

Market risk is caused by the possible loss caused by changes in the fair value or in the future cash flows of Financial Instruments due to changes in market prices. Market Risk includes interest rate, exchange rate and fuel price risk. The Company's revenues are mainly in Euros, but a significant proportion of the Operating Costs are incurred in US Dollars or are linked to the US Dollar Exchange Rate.

The Company is exposed to price risk from jet fuel. The Company has contracted derivative instruments to hedge the risk of future price fluctuations. The price risk management policy consists of hedging a specific percentage of jet fuel, the fuel used by aircraft (see Note 17).

The Company is exposed to exchange-rate risks for currency transactions, mainly in US Dollars. Exchange-rate risk arises from 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 commercial transactions denominated in US Dollars, the Company uses currency forward contracts. The Company's Financial Department is responsible for managing the net position in US Dollars using derivative financial instruments. The Company's policy for managing exchange-rate risk is based on hedging a defined percentage of the currency needs for purchasing fuel, aircraft lease payments and operating payments in US Dollars. Through budget management, the Company is able to determine the dates of future payments in US Dollars with a high degree of accuracy. Therefore, almost all the planned payments in US dollars are classified as firm commitments or highly probable forecast transactions for the purpose of hedge accounting.

The Company holds assets with short-term returns invested in deposits 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 Directors ratify the main decisions regarding the Company's hedging policies.

10. Inventories

Details of and movement in the items comprising inventories are as follows:

2021 Financial Year

Thousand Euros	Opening Balance	Additions	Disposals	Closing Balance
Spare aircraft engine parts	0	11,585	-	11,585
Greenhouse gas emission allowances	28,575	23,576	(13,690)	38,461
Consumables	2,587	-	-	2,587
Total cost	**31,162**	**35,161**	**(13,690)**	**52,633**

2020 Financial Year

Thousand Euros	Opening Balance	Additions	Disposals	Closing Balance
Spare aircraft engine parts	707	-	(707)	-
Greenhouse gas emission allowances	78,189	69,648	(119,263)	28,574
Consumables	2,587	-	-	2,587
Total cost	**81,483**	**69,648**	**(119,970)**	**31,161**

The additions of the purchases of “Greenhouse gas emission allowances” are recorded at their purchase price, while those received free of charge are recorded at the market price listed on the first business day of the year in which they have been allocated.

In 2021, the Company received 708,234 thousand free allowances (824 thousand allowances in 2020), with a value of 23,576 thousand Euros (19,937 thousand Euros in 2020).

In 2021 the Company has not purchased any rights (295 thousand rights with a value of 7.165 thousand Euros in 2020). The Company did not sell rights during the financial year 2021.

The inventories recorded as of December 31, 2021, are valued at the average cost of purchase, which does not exceed their market value.

Additionally, during the financial year 2021, sales operations were carried out with subsequent repurchase of CO2 allowances. These operations have not impacted the movement of inventories given that it has been considered that the greenhouse gas emission allowances continued to be owned by the Company and a liability has been created for the amount received from the sale. The number of inventories with an associated liability at the end of the year is 56,322 thousand Euros, corresponding to 954 thousand allowances.

11. Cash and equivalent liquid assets

The heading "Cash and equivalent liquid assets" records all cash deposited in sight current accounts together with the sight bank deposits which are convertible into cash and which have no restrictions, and which have a maturity of less than three months when acquired. The total amount recorded under this heading at December 31, 2021 stood at 180,333 thousand Euros (204.406 thousand Euros at December 31, 2020). Current accounts accrue the market interest rate for this type of account.

At December 31, 2021 and 2020, Vueling has a pledged account of 8,707 thousand dollars with Deutsche Bank to cover the risk of the guarantees given to the lessors of the aircraft.

At December 31, 2021, the Company has available cash position totalling 408,918 thousand Euros, made up of cash and cash equivalents, held-to-maturity investments and short-term deposits (586,965 thousand Euros at December 31, 2020), as detailed in Note 9.2. In addition, the Company has undrawn credit lines at year-end 2021 totalling 40,000 thousand Euros (Note 14.1), which increase the available cash position.

12. Net equity

12.1. Share capital

At the end of 2021 and 2020, the Company's Share Capital stood at 29,904,518 Euros, represented by 29,904,518 shares, each with a Par Value of 1 Euro, all the same class and fully subscribed and paid up.

According to the information available to the Company, at December 31, the shareholders who have a stake greater than 10% of the Share Capital are as follows:

Shareholder (note 1)	2021	2020
IBERIA, Líneas Aéreas de España, S.A. Operadora	50,1%	50,1%
Veloz Holdco, S.L.U.	49,40%	49,40%

Both Company shareholders belong to the IAG Group.

As explained in note 9.1, the Company has granted loans to Veloz Holdco, S.L.U. totalling 62,5 million Euros (62,5 million Euros as of December 31, 2020).

12.2. Legal reserve

In compliance with the Capital Companies Act, 10% of the profit for the year of public limited companies must be allocated to the legal reserve until said reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Except as mentioned above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At December 31, 2021 and 2020, the Legal Reserve is fully appropriated.

12.3. Goodwill reserve

This reserve was set up in prior years in accordance with Section 4 of Article 273 of the Capital Companies Act (repealed with effect as from 1 January 2016) which established that a proportion of the profit representing at least 5% of the goodwill recorded in the Balance Sheet must be allocated to this goodwill reserve (Note 6). If there is no profit, or the profit is not sufficient, freely available reserves will be used. The goodwill reserve was considered unavailable while the assets were recorded in the Balance Sheet of the Company.

This reserve is unavailable and, in accordance with the Sole Transitional Provision of Royal Decree 602/2016, of December 2, from January 1, 2016 the amount that exceeds the carrying amount of the Goodwill recorded in the assets of the Balance Sheet, must be reclassified to Voluntary Reserves and will be considered available.

The Company recorded this Reserve in the heading “Other Reserves” amounting to 4,240 thousand Euros in 2021 and 2020.

12.4 Share Premium and limits to the payment of dividends

As a result of the merger with Clickair, S.A. in 2009 (see Note 3), together with the capital increase, the share premium was increased by 65,640 thousand Euros, resulting in the share premium rising to 199,185 thousand Euros. At December 31, 2021, this reserve is freely available in its totality (same situation at December 31, 2020), except if, as a result of the distribution of dividends, the net equity is less than the share capital.

12.5 Information regarding the right of separation of the shareholder due to lack of distribution of dividends (Article 348 bis of the revised text of the Capital Companies Act)

During 2021 and due to the losses caused by the Covid-19 crisis, the company has decided not to distribute dividends from previous years.

Previously, during the last three years (2017-2019) dividends have been distributed for an amount greater than a third of the profit of each of the years.

12.6. Subsidies

The information on the subsidies received by the Company, which are included in the Net Equity, as well as the resulting gains (losses) allocated to the Income Statement, is as follows:

2021 Financial Year

Thousand Euros	**Scope**	**Opening Balance**	**Additions**	**Transfer to profit and loss**	**Closing Balance**
Greenhouse gas emission allowances (Note 10)	European	-	17,682	(17,682)	-
Airbus (Note 5,14)	Private	234	-	(72)	162
Others	Private	365	-	42	407
Total		**599**	**17,682**	**(17,712)**	**569**

2020 Financial Year

Thousand Euros	**Scope**	**Opening Balance**	**Additions**	**Transfer to profit and loss**	**Closing Balance**
Greenhouse gas emission allowances (Note 10)	European	-	15,647	(15,647)	-
Airbus (Note 5,14)	Private	-	1,910	(1,676)	234
Others	Private	1,058	2	(695)	365
Total		**1,058**	**17,559**	**(18,018)**	**599**

On December 31, 2021, and 2020, the Company had met all the requirements necessary to receive and use the aforementioned subsidies. The amounts of the additions and transfers to profit and loss are net of their tax effect. Additions include a tax effect for 5,894 thousand Euros (5,853 thousand Euros in 2020) and transfers to profit and loss include 5,904 thousand Euros of tax effect (6,006 thousand Euros in 2020).

12.7 Law governing dissolution due to losses

Article 363.1.e) of the Capital Companies Act (LSC) establishes that the company must be dissolved "due to losses that reduce the net assets to an amount less than half of the share capital, unless the latter is increased or reduced to a sufficient extent, and provided that it is not appropriate to request a declaration of insolvency".

Regarding the 2021 financial year and by virtue of the Article of Royal Decree 27/2021, of November 23, which extends certain economic measures to support the recovery:

The exceptional measure provided in article 13 of Law 3/2020, of September 18 is extended exclusively for 2021 financial year.

For the sole purpose of determining the concurrence of the cause for dissolution provided for in Article 363.1.e) of the revised text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, the losses for the financial years 2020 and 2021 shall not be taken into consideration. If the result for the financial year 2022 shows losses that reduce the net assets to less than half of the share capital, a general meeting must be called by the Directors or may be requested by any shareholder within two months of the end of the financial year, in accordance with article 365 of the aforementioned Act, to dissolve the company, unless the capital is increased or reduced sufficiently. (Note 2.8)

The provisions of the preceding paragraph are without prejudice to the duty to apply for a declaration of bankruptcy in accordance with the provisions of this Law.

13. Provisions and contingencies

13.1. Provisions

The breakdown of provisions at 2021 and 2020, are as follows:

Thousand Euros	**Long-term**	**Short-term**	**TOTAL**
2021			
Provisions for scheduled aircraft maintenance	525,685	171,488	697,173
Provision for greenhouse gas emission allowances	-	33,323	33,323
Provisions for aircraft rentals	5,967	12,603	18,570
Other provisions	902	1,720	2,622
Total	**532,554**	**219,134**	**751,688**
2020			
Provisions for scheduled aircraft maintenance	575,135	36,464	611,599
Provision for greenhouse gas emission allowances	-	16,348	16,348
Provisions for aircraft rentals	33,641	25,454	59,096
Other provisions	902	1,720	2,622
Total	**609,678**	**79,987**	**689,665**

The movements are as follows.

2021 Financial Year

Thousand Euros	**Opening Balance**	**Additions (*)**	**Disposals**	**Reversals**	**Closing Balance**
Provisions for scheduled aircraft maintenance	611,599	126,642	(41,068)	-	697,173
Provision for greenhouse gas emission allowances	16,348	30,665	(13,690)	-	33,323
Provisions for aircraft rentals	59,096	-	(19,043)	(21,484)	18,569
Other provisions	2,622	-	-	-	2,622
Total	**689,665**	**157,307**	**(73,801)**	**(21,484)**	**751,687**

2020 Financial Year

Thousand Euros	**Opening Balance**	**Additions (*)**	**Disposals**	**Closing Balance**
Provisions for scheduled aircraft maintenance	610,232	114,531	(113,164)	611,599
Provision for greenhouse gas emission allowances	48,443	16,348	(48,443)	16,348
Provisions for aircraft rentals	-	65,124	(6,28)	59,096
Other provisions	2,622	-	-	2,622
Total	**661,297**	**196,003**	**(167,635)**	**689,665**

(*) The maintenance provisions are presented net of the effect of changes in exchange rates that have resulted in a higher liability amounting to -46,298 thousand Euros in 2021 (a decrease in the provision of 46,912 thousand Euros 2020) and -516 thousand Euros related to the effect of the financial discount (-1,150 thousand Euros in 2020).

Provisions for scheduled aircraft maintenance

This heading 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 contracts (see Note 5.10).

To calculate this provision, the Company differentiates between maintenance which must be carried out over the lease life of the aircraft and maintenance which must be carried out on a date subsequent to the termination of the lease. For the first case, the Company makes the provision based on the historical prices and on those established in the Maintenance Agreements and based on the prices established in the Aircraft Lease Contract for the second case. In both cases, the Company considers the hours/cycles and months of operation of each aircraft.

Allowances for the year have been charged to the Income Statement under the heading "Other operating expenses - aircraft maintenance” (see Note 19.6) and correspond to the hours/cycles and months of operation of the aircraft based on the contract price applicable in each case. The Company also records line maintenance expense for which no provision is recognised under the same heading.

The gross allowances in 2021, excluding the effect of foreigner exchange rate variation and financial discount, relating to "Provisions for scheduled maintenance" amounted to 46,814 thousand Euros, while in 2020 they amounted to 64,358 thousand Euros. The following factors should be taken into consideration:

- The aircraft maintenance costs have a negative effect of 0.57% on price in 2021 compared to 2020.
- The average fleet in 2021 comprises 127 aircraft, and 127 aircraft in 2020.The size of the fleet under operating leases remains stable, with main growth in aircraft under finance lease.
- Applications for 2021 correspond to the cost of the checks performed, as well as the amounts attributable to the aircraft returned during the year.

Other provisions

This heading includes the amounts which the Company estimates that will have to be paid as a consequence of the resolution of certain legal disputes for which no final legal ruling has been issued, as well as other provisions. The Company's Directors estimate that the outcome 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.

Provision for greenhouse gas emission allowances

The Company records a provision for greenhouse gas emission allowances. Said provision is determined based on metric tonnes of carbon dioxide emitted, which are determined based on monthly fuel consumptions, multiplied by the weighted average cost at the end of each month.

The Company makes provisions for the consumption of the Greenhouse Gas Emission Allowances until their subsequent settlement in April next year (see Note 5.10).

Provision for aircraft rental payments

In the 2020 financial year, the Company recorded a provision to meet the contractual obligations for rent of 65,124 thousand Euros in the Income from Disposals and Others line in the income statement. This provision corresponded to the committed rentals for 14 leased aircraft that, due to the COVID-19 pandemic, were not expected to be used before the date of return to the lessor.

In the 2021 financial year, the Company has recorded a reversal of the provision amounting to 21,484 thousand Euros in the Income from Disposals and Others line in the income statement. This reversal corresponds to the rents for 4 of the aircraft mentioned in the previous paragraph that have been considered necessary for operations considering the latest forecasts made by the Company.

13.2. Contingencies

The Company is not aware of any significant contingencies that may affect it in the future. In addition, there are other less significant legal disputes and proceedings that the Company is aware of, but which are not expected to lead to material liabilities or assets. In any event, the Directors have allocated an amount to the provisions that they consider to be sufficient.

14. Liabilities

14.1. Financial liabilities

The breakdown of the financial liabilities at December 31, 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Long-term financial liabilities		
Payables to credit institutions	258.985	258,695
Debts and accounts payable	469.284	502,617
Hedging derivatives (Note 17)	6.082	38,726
	734.351	**800.038**
Short-term financial liabilities		
Payables to credit institutions	22	22
Debts and accounts payable	729.434	503,407
Hedging derivatives (Note 17)	7.056	157,102
	736.512	**660,531**
Total	**1.470.863**	**1,460,569**

These amounts are included in the following balance headings:

Thousand Euros	2021	2020
Non-current financial liabilities		
Payables to credit institutions	258,985	258,695
Hedging derivatives (Note 17)	6,082	38,726
Financial lease payables (Note 8,2)	469,134	502,475
Other long-term liabilities	150	142
	734,351	**800,038**
Current financial liabilities		
Payables to credit institutions	22	22
Hedging derivatives (Note 17)	7,056	157,102
Financial lease payables (Note 8,2)	39,087	38,666
Other short-term liabilities	57,621	34,145
Trade payables	324,890	199,168
Group company suppliers (Note 16)	100,869	91,787
Sundry payables	152,100	119,320
Personnel (remuneration payable)	45,343	17,358
Other payables to Public Authorities	9,524	3,798
Advance payments from customers	-	(833)
	736,512	**660,531**
Total	**1,470,863**	**1,460,569**

During 2020 and in order to address the crisis caused by the COVID-19 pandemic, the Company has obtained syndicated loans guaranteed by the Spanish Government (ICOs) for an amount of 262,000 thousand Euros with a grace period of 3 years. During 2021, due to the uncertainty generated by the COVID-19 pandemic, the Company has decided to extend the loan repayment periods as follows: 39,300 thousand Euros on 30 April 2023; 52,400 thousand Euros on 30 April 2024; 65,500 thousand Euros on 30 April 2025 and 104,800 thousand Euros on 30 April 2026. The loan has been given a market interest rate of 3.135%.

The Company has been granted an undrawn credit facility with the financial institution BBVA amounting to 40,000 thousand Euros (at the end of 2020 Vueling had an undrawn credit facility amounting to 40,000 thousand Euros).

14.2. Information on average payment period to suppliers

The information related to the average payment period to suppliers, expressed in days, is as follows:

	2021	2020
Average days for payment to suppliers	37	34
Ratio of transactions paid	36	32
Ratio of transactions outstanding	56	87

In 2021, the Company made payments to suppliers for a total amount of 1,591,853 thousand Euros (1,442,816 thousand Euros in 2020). At the close of 2021, outstanding payments amounted to 78,425 thousand Euros (62,657 thousand Euros in 2020).

15. Deferred Income/Accruals

A breakdown of the long- and short-term accruals at December 31, 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Long-term accruals		
Revenue from fleet transactions	61,086	76,886
	61,086	**76,886**
Short-term accruals		
Advance sales	171,729	154,710
Revenue from fleet transactions	15,471	15,558
	187,200	**170,268**
Total	**248,286**	**247,154**

Advance sales are mainly due to the amount received from clients for tickets related to future flights already issued and paid. These amounts remain as short-term accruals until the flight takes place.

Deferred income from fleet operations includes the profit obtained from “Sale and Leaseback” transactions explained in notes 5.3 and 8. At December 31, 2021, the deferred amount recorded in the balance sheet for these transactions amounted to 76,557 thousand Euros, related to 43 aircraft (91,787 thousand Euros relating to 43 aircraft at December 31, 2020). In 2021, the deferred amounts included in the Income Statement recorded as a reduction in rent cost totalled 15,887 thousand Euros (14,514 thousand Euros in 2020). Furthermore, these accounts include the deferred income related to certain discounts received from aircraft lessors for 14 thousand Euros (14 thousand Euros in 2020). In 2021, the amount recorded in the Income Statement was 0 thousand Euros (5,717 thousand Euros in 2020).

16. Transactions and balances with group companies

The breakdown of transactions with group companies in 2021 and 2020 is as follows:

2021 Financial Year

Thousand Euros	Services provided	Services received
IBERIA, Líneas Aéreas de España, S.A. Operadora	-	185,315
International Consolidated Airlines Group, S.A.	-	4,953
British Airways, Ltd.	-	1,270
Avios Group (AGL), Ltd.	-	36
IAG GBS, Ltd	-	4,258
Aer Lingus, Ltd.	518	2,720
Total	**518**	**198,552**

2020 Financial Year

Thousand Euros	Services provided	Services received
IBERIA, Líneas Aéreas de España, S,A, Operadora	-	200,153
International Consolidated Airlines Group, S,A,	-	3,209
British Airways, Ltd,	-	253
Avios Group (AGL), Ltd,	204	-
IAG GBS, Ltd	-	3,718
Anisec Lufthart GmbH	-	416
LEVEL	97	-
Aer Lingus, Ltd,	2,234	-
Total	**2,535**	**207,749**

The Company does not consider as a service provided to some of its related entities the number of sales made through their distribution channels. Details of sales of this type as of December 31, 2021 and 2020, are provided below:

Thousand Euros	2021	2020
IBERIA, Líneas Aéreas de España, S,A, Operadora	44,890	29,660
British Airways, Ltd	3,712	15,756
Total	**48,602**	**45,416**

The services received from group companies basically correspond to maintenance tasks for the aircraft fleet and ground handling services based on contracts for 111,869 thousand Euros and 73,466 thousand Euros respectively (136,641 thousand Euros and 59,805 thousand Euros respectively in 2020).

The related party balances shown in the Balance Sheet at December 31, 2021 and 2020 are as follows:

2021 Financial Year

Thousand Euros	Balances receivable	Balances payable
IBERIA, Líneas Aéreas de España, S.A. Operadora	4,791	61,990
International Consolidated Airlines Group, S.A.	410	35,188
Aer Lingus Ltd.	-	1,724
IAG GBS, Ltd	-	(1,314)
British Airways, Ltd.	616	814
LEVEL	1,388	-
Veloz Holdco SLU	64,026	-
Yellow handling	237	1,181
Avios Group (AGL) Ltd.	1,574	1,286
Total	**73,042**	**100,869**

2020 Financial Year

Thousand Euros	Balances receivable	Balances payable
IBERIA, Líneas Aéreas de España, S.A. Operadora	31,235	50,905
International Consolidated Airlines Group, S.A.	446	23,154
IAG GBS, Ltd	5	(203)
British Airways, Ltd.	13	124
LEVEL	1,219	(1,388)
IAG Connect Ltd.	-	1,919
Veloz Holdco SLU	64,112	-
Yellow handling	700	-
Avios Group (AGL), Ltd.	7,931	17,276
Total	**105,661**	**91,787**

At December 31, 2021, the Company has an account payable with Iberia Líneas Aéreas de España, S.A. Operadora of 61,990 thousand Euros (50,905 thousand Euros in 2020).

The commercial, contractual and/or corporate relationships existing between Iberia and the Company correspond to the shared code agreement, the Iberia Plus loyalty programme, the aircraft maintenance service agreement and the ground handling agreement.

The Company carries out all the operations with related parties at market price. The Company's Directors consider that there are no significant risks related to this aspect which may result in material liabilities in the future.

As mentioned in Note 9.1 the Company granted a loan to Veloz Holdco, S.L.U. for 10,000 thousand Euros in 2020. In addition, loans of 40,000 thousand Euros and 12,500 thousand Euros were granted in 2018 and 2019, respectively.

17. Derivative financial instruments

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

These instruments are basically used to reduce the impact of future cash flows of the Company due to jet fuel purchase in the event of an unfavourable price situation (in US Dollars), as well as to reduce the impact on the Company's future cash flow derived from US dollar payments (fuel purchase, aircraft lease payments and the corresponding insurance policies, etc.) as a result of an unfavourable trend in the EUR/USD exchange rate.

The fair value of derivative financial instruments is determined using valuation techniques that maximise the use of observable inputs in observable markets (Level 2).

In order to calculate the fair value of derivative financial instruments, valuation techniques such as the discounted estimated cash flow method or Black Scholes options valuations for European options are used. The fair value of long-term exchange rate contracts (exchange rate forwards) is calculated using spot exchange rates quoted in the market at balance sheet date. For exchange rate tunnel options, the calculation is made using the Black Scholes formula adjusted to exchange rate options. The fair value of Jet Fuel, Brent, Gasoil and components derivatives is established using future curves of market quoted prices at balance sheet date and, for Jet Fuel, Brent, Gasoil and components swaps, the Black Scholes formula adjusted to commodity options is used. The fair value of interest rate swaps is calculated as the present value of future estimated cash flows.

The effectiveness of all accounting hedges contracted by the Company has been verified (cash flow hedges), both at the start and during their life. The total amount of ineffectiveness that has been recognised as financial income and expenses in the Income Statement during the year 2021 is a surplus of 9,191 thousand Euros (loss of 173,228 thousand Euros in 2020). Additionally, due to changes in the accounting principles, a loss of 14,466 thousand Euros has been recognised in the Income Statement and a loss of 5,402 thousand Euros has been recognised in equity.

When recording and measuring the effectiveness of the hedging relationship, the Company designates groups of hedged items considering the monthly needs for its activity (either fuel needs for Jet fuel, Brent, Gasoil and components price hedges or US Dollar requirements for purchases and/or payments in the aforementioned currency).

Regarding interest rate hedges, the Company designates specific items, highly probable transactions corresponding to new aircraft operating lease contracts where the lessor has not yet determined the lease instalment interest rate or it is a variable instalment. Furthermore, the Company designates balance sheet financial liabilities hedges at a variable interest rate.

The Company does not hedge all future needs, but it does hedge a percentage defined by the Board of Directors, which is always lower than the scheduled needs.

a) Exchange Rate Derivatives

In 2021 and 2020, the Company hedged the exchange rate risk of part of its transactions denominated in US Dollars.

The derivatives in effect at December 31, 2021 and 2020 and their fair values on said date are as follows:

2021 Financial Year

Currency	Thousand Dollars Nominal 2021	Thousand Euros			
		Fair value			
		Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term debts	Liabilities: Long-term debts
Forwards, calls and tunnel options EUR/USD 1st half-year 2022	470,090	42,535	-	1,970	-
Forwards, calls and tunnel options EUR/USD 2nd half-year 2022	289,273	9.103	-	977	-
Forwards, calls and tunnel options EUR/USD 2023 and subsequent years	339,263	-	5,224	-	3,899
Total	**1,098,626**	**51,638**	**5,224**	**2,947**	**3,899**

2020 Financial Year

Currency	Thousand Dollars Nominal 2020	Thousand Euros			
		Fair value			
		Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term debts	Liabilities: Long-term debts
Forwards, calls and tunnel options EUR/USD 1st half-year 2021	298,751	15,395	-	59,046	-
Forwards, calls and tunnel options EUR/USD 2nd half-year 2021	258,202	8,942	-	11,213	-
Forwards, calls and tunnel options EUR/USD 2022 and subsequent years	515,590	-	5,545	-	26,710
Total	**1,072,543**	**24,337**	**5,545**	**70,259**	**26,710**

The net fair value at December 31, 2021, of the Exchange Rate Derivatives (exchange rate forwards, calls and tunnel options) is positive by 50,015 thousand Euros (negative by 67,088 thousand Euros on December 31, 2020), of which 49,655 thousand Euros is recorded in Net Equity and 360 thousand Euros (positive) is recorded in the Income Statement.

The forward exchange contracts in US Dollars ensure the purchase of US Dollars at prices which vary between 1.08 and 1.3 USD/EUR (1.07 and 1.39 USD/EUR at December 31, 2020).

At December 31, 2021 and 2020, the Company had designated as hedging instruments for accounting purposes, as permitted by the General Chart of Accounts, all the forwards for US Dollars in effect at that date (except for those explained below in paragraph d), as well as all the calls and exchange rate tunnel options used as cash flow hedges for payment of fuel purchases, payments for aircraft leases and the corresponding maintenance (all the cases are highly probable future transactions). The hedging relationships of the designated cash flow hedging with these derivatives have been estimated as highly effective. Therefore, the Company has recorded their fair value in Net Equity.

b) Fuel derivatives

The Company has used Derivative Financial Instruments on the price of the Mt of Jet Fuel Cif NWE, Brent and Gasoil, with the aim of hedging fluctuations in the price of Jet Fuel referenced to fuel purchases. The commodity derivatives in effect at December 31, 2021 and 2020 and their fair values at that date are as follows:

2021 Financial Year

Fuel	Thousands of Mt 2021	Thousand Euros Fair Value Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term debts	Liabilities: Long-term debts
Swaps and tunnel options on Jet Fuel1st half-year 2022	368	13,191	-	1,577	-
Swaps and tunnel options on Jet Fuel 2nd half-year 2022	228	12,855	-	1,695	-
Swaps and tunnel options on Jet Fuel 2023 and subsequent years	172	-	3,706		731
Total	**768**	**26,046**	**3,706**	**3,272**	**731**

2020 Financial Year

Fuel	Thousands of Mt 2020	Thousand Euros Fair Value Assets: Short-term financial investments	Assets: Long-term financial investments	Liabilities: Short-term debts	Liabilities: Long-term debts
Swaps and tunnel options on Jet Fuel1st half-year 2021	242	3,139	-	45,822	-
Swaps and tunnel options on Jet Fuel 2nd half-year 2021	341	146	-	54,037	-
Swaps and tunnel options on Jet Fuel 2022 and subsequent years	220	-	-	-	9,395
Total	**803**	**3,285**	**-**	**99,859**	**9,395**

The net fair value at December 31, 2021, of Commodities Derivatives (swaps and tunnel options on the Mt Jet Fuel Cif NEW, Brent and Gasoil) is positive by 25,749 thousand Euros (negative by 105,969 thousand Euros at December 31, 2020), of which 26,750 thousand Euros (positive) is recorded in Net Equity and 1.001 thousand Euros (negative) is recorded in Income Statement (value of former Level contract as of 06.2020, is reassigned to Vueling).

The contracted prices for swaps on Jet Fuel Cif NEW, Brent and Gasoil range between 394,788 and 725 USD/Mt (362,5 and 969,25 USD/Mt at December 31, 2020).

At December 31, 2021 and 2020, the Company had designated as Hedging Instruments for accounting purposes, as permitted by the General Chart of Accounts, all swaps and options for Jet Fuel Cif NWE, Brent and Gasoil as Cash Flow Hedges, resulting from fuel highly probable purchases referenced to Jet Fuel.

c) Interest rate derivatives

The Company has hedged the interest rate risk of a portion of its aircraft lease future contracts (highly probable expected transactions) and financial liabilities recognised in the balance sheet. The interest rate derivatives in effect at December 31, 2021 and 2020 are as follows:

2021 Financial Year

IRS	Thousand USD/EUR 2021	Thousand Euros Fair Value Assets Short-term financial investments	Assets Long- term financial investments	Liabilities Short Term Debts	Liabilities Long Term Debts
Swaps 1st half-year 2022	43,994	-	-	326	-
Swaps 2nd half-year 2022	40,544	-	.	279	-
Swaps 2023 and subsequent years	188,597	-	94	-	936
Total	**273,136**	**-**	**94**	**604**	**936**

2020 Financial Year

IRS	Thousand USD/EUR 2020	Thousand Euros Fair Value Assets Short-term financial investments	Assets Long- term financial investments	Liabilities Short Term Debts	Liabilities Long Term Debts
Swaps 1st half-year 2021	123,166	1	-	500	-
Swaps 2nd half-year 2021	72,901	-	-	350	-
Swaps 2022 and subsequent years	130,328	-	-	-	1,899
Total	**326,395**	**1**	**-**	**850**	**1,899**

The net fair value of the interest rate swaps that the Company has designated as an accounting hedge at December 31, 2021, is negative by 1,446 thousand Euros (negative by 2,748 thousand Euros at December 31, 2020). These accounting hedges will be allocated to the Income Statement to the extent that the hedged expense is recognised in profit and loss (lease expense recognition).

d) Non-hedge derivatives

At December 31, 2021, the Company had in its portfolio EUR/USD exchange rate forwards totalling 674,03 million US Dollar and EUR/JPY exchange rate forwards totalling 4,859.4 million Japanese Yens. The net valuation of EUR/USD forwards was positive by 20,931 thousand Euros and the valuation of EUR/JPY forwards was negative by 533 thousand Euros (at December 31, 2020, exchange rate forwards totalled 528.2 million US dollars and EUR/JPY exchange rate forwards totalled 4,840 million Japanese Yens. The net valuation of EUR/USD forwards was negative by 22,906 thousand Euros and the valuation of EUR/JPY forwards was negative by 307 thousand Euros) to hedge exchange rate risk of the Company´s monetary assets and liabilities denominated in US dollars and Japanese yen.

e) Impact of derivatives on net equity

The impacts of the aforementioned derivatives on net equity at December 31, 2021 and 2020 in thousand Euros and net of the tax effect are as follows:

2021 Financial Year

Thousand Euros	Exchange rate derivatives	Fuel derivatives	Interest-rate swaps	Total
Opening balance	**(87,677)**	**(14,060)**	**(2,715)**	**(104,452)**
Total income and expenses directly allocated to net equity	119,732	6,105	2,086	127,923
Total transfers to the Income Statement	10,208	28,165	(456)	37,917
Closing balance	**42,263**	**20,209**	**(1,084)**	**61,388**

2020 Financial Year

Thousand Euros	**Exchange rate derivatives**	**Fuel derivatives**	**Interest-rate swaps**	**Total**
Initial balance	**75,146**	**(8,675)**	**(2,859)**	**63,611**
Total income and expenses directly allocated to net equity	(236,344)	154,246	2,559	(79,539)
Total transfers to the Income Statement	73,521	(159,631)	(2,415)	(88,525)
Closing balance	**(87,677)**	**(14,060)**	**(2,715)**	**(104,452)**

In 2021, a loss of 119,732 thousand Euros form Exchange Rate Derivatives has been added to Net Equity (losses of 236,344 thousand Euros at December 31, 2020), as the effective portion of the hedge over the year. An amount of 9,464 thousand Euros was transferred from Net Equity to the Income Statement based on its nature, increasing the cost of purchases and services received (increase of 47,055 thousand Euros at December 31, 2020), all net of the corresponding tax effect. An amount of 744 thousand Euros (gain) was transferred from equity to the Income Statement due to a change in the forecast transaction.

In 2021, a profit of 6,105 thousand Euros for Fuel Derivatives has been added to Net Equity (losses of 154,246 thousand Euros at December 31, 2020), as the effective portion of the hedge over the year. An amount of 28,835 thousand Euros was transferred from Net Equity to the Income Statement reducing the cost of fuel purchases (33,500 thousand Euros in 2020), all net of the corresponding tax effect. An amount of 670 thousand Euros (loss) was transferred from equity to the Income Statement due to a change in the planned transaction.

In 2021, a profit of 2,086 thousand Euros on Exchange-Rate Derivatives was allocated to Net Equity (a profit of 2,559 thousand Euros in 2020), as the effective portion of the hedging relationships over the year, all net of the corresponding tax effect.

The derivatives allocated directly to Net Equity are presented net of their tax effect, which has totalled a negative amount of 20,686 thousand Euros in 2021 (a negative amount of 3,810 thousand Euros in 2020) and the derivatives transferred to the Income Statement are presented net of their tax effect, which has totalled a positive amount of 12.614 thousand Euros (3,714 thousand Euros in 2020).

f) 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 performance of short-term interest-rate curves. At December 31, 2021, the fair value of exchange-rate derivatives designated as cash flow hedges is negative for a net amount of 56,609 thousand Euros (negative for a net amount of 90,509 thousand Euros at December 31, 2020), net of the tax effect

The following table shows the breakdown of the sensitivity analysis (changes in the fair value at December 31, 2021) on the fair values of the Exchange-Rate Derivatives, recorded in Net Equity as accounting hedges:

	Million Euros	
Sensitivity in Net Equity	**2021**	**2020**
+10% (appreciation of Euro)	104	(170)
-10% (depreciation of Euro)	(74)	198

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 purchase USD at a fixed exchange rate.

g) Analysis of Jet Fuel price sensitivity

Variations in the fair value of the Fuel Derivatives used by the Company mainly depend on the variation in the price of the underlying Commodity, the Mt of Jet Fuel CIF NWE, Brent and Gasoil and the time to maturity. At December 31, 2021, the fair value of these derivatives is positive for a net amount of 26.897 thousand Euros (negative for a net amount of 14,960 thousand Euros at December 31, 2020).

The following table shows the breakdown of the sensitivity analysis (variations on the fair value at December 31, 2021) on the fuel derivatives, recorded in Net Equity as hedging instruments:

Sensitivity in Net Equity	Million Euros	
	2021	**2020**
+30% (rise in the price of Jet Fuel)	107	49
-30% (fall in the price of Jet Fuel)	(65)	(59)

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 it has hedged rises in Jet Fuel CIF NWE. The negative value increases as a result of decreases in Jet Fuel Cif NWE.

18. Public Authorities and tax position

18.1. Current balances with Public Authorities

The breakdown of current balances with Public Authorities at the close of 2021 and 2020 is as follows:

Thousand Euros	**Debit Balances**	
	2021	**2020**
Taxation authorities, withholding tax	11	-
CIT recoverable	10,186	15,231
VAT recoverable	1,663	-
Total	**11,860**	**15,231**

Thousand Euros	**Credit Balances**	
	2021	**2020**
Social Security payables	5,116	3,653
Taxation authorities, withholding tax	3,835	523
CIT payables	557	528
VAT payables	17	(379)
Total	**9,524**	**4,325**

18.2. Reconciliation of accounting loss and tax base

The reconciliation between the accounting loss and the Corporate Income Tax base at the close of 2021 and 2020 is as follows:

2021 Financial Year

Thousand Euros	**Increases**	**Decreases**	**Total**
Accounting loss after tax			**(350,023)**
Permanent differences:			
Corporate Income Tax	-	6,541	6,541
Other permanent differences	6,241	-	6,241
Temporary differences:	-	-	-
Arising in the year	18,959	-	18,959
Arising in previous years	-	(83,786)	(83,786)
Previous Tax base	-	-	(402,068)
Tax loss carryforwards	-	-	-
Tax base	-	-	**(402,068)**
TAX at 25%	-	-	-
ZEC tax at 4%	-	-	-
Withholdings and interim payments	-	-	222
Deductions	-	-	-
Corporate Income Tax Receivable			**(222)**

2020 Financial Year

Thousand Euros	Increases	Decreases	Total
Accounting loss after tax			**(785,262)**
Permanent differences:			
Corporate Income Tax	-	(187,279)	(187,279)
Other permanent differences	210,578	-	210,578
Temporary differences:			
Arising in the year	139,875	(10,186)	129,689
Arising in previous years			
Previous Tax base	350,454	(197,465)	(632,274)
Tax loss carryforwards	-	-	-
Tax base			(632,274)
TAX at 25%	-	-	-
ZEC tax at 4%	-	-	-
Withholdings and interim payments	-	-	(16)
Deductions	-	-	-
Corporate Income Tax Receivable			**(16)**

In 2021, the permanent differences are mainly composed of penalties and gifts/donations.

In accordance with changes introduced to Law 8/2018, dated 5 November, modifying Law 19/1994, dated 6 July, of the Economic and Fiscal Regime of the Canary Islands, the Company has decided to apply the fiscal profit of the Canary Island Special Zone (ZEC). Therefore, the negative tax base generated by operations in the Canary Island Special Zone amounted to (107,405) thousand Euros (198,372 thousand Euros in 2020) and there is no tax difference in 2021 (no tax difference in 2020).

In 2021, tax loss carryforwards have been generated for future years, as shown in the table below:

Year	To be implemented in the period	Implemented in 2020	To be implemented in the future
2020	824,169	-	824,169
2021	402,068	-	402,068
TOTAL	**1,226,237**	**-**	**1,226,237**

18.3. Reconciliation between the accounting loss and the Corporate Income Tax expense

The reconciliation between the accounting profit and the Corporate Income Tax expense for 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Accounting loss after Corporate Income Tax	**(350,023)**	**(785,262)**
Permanent differences	**12,782**	**23,299**
Tax payable at 25% of the tax base	(85,870)	(243,135)
Corporation tax adjustments previous year	4,291	(3,279)
Other adjustments	91,345	61,199
Deductions	(3,225)	(2,064)
Total (expense) or income for tax recognised in the Income Statement	**6,541**	**(187,279)**

Permanent differences include corporate income tax for the year as well as other permanent differences. The Other adjustments line of the table above includes the difference between the tax rate applicable in the ZEC and the general tax rate pursuant to the Corporate Tax Law (25%), in addition to the effect of the deferred tax expense not recognised by application of the criteria established in consultation 10 of BOICAC (Spanish Official State Gazette) 80 on accounting recognition of tax credits.

18.4. Tax recognised in Net Equity

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

2021 Financial Year

Thousand Euros	Increases	Decreases	Total
For current tax:			
Cash flow hedges	-	(55,280)	(55,280)
Subsidies	5,904	(5,894)	80
Total tax recognised directly in Equity (current tax)	**5,904**	**(61,264)**	**(55,200)**

2020 Financial Year

Thousand Euros	Increases	Decreases	Total
For current tax:			
Cash flow hedges	-	56,021	56,021
Subsidies	6,006	(5,853)	153
Total tax recognised directly in Equity (current tax)	**6,006**	**50,168**	**56,174**

18.5 Deferred tax assets

The breakdown of movements and balance under this heading in 2021 and 2020 is as follows:

2021 Financial Year

Thousand Euros	Opening Balance	Corporate Income Tax 2021	Income Tax From Other Adjustments Previous Year	For changes in derivative financial instruments	Closing Balance
Tax credit to offset losses	**151,667**	**8,453**	**(6,085)**	**-**	**154,035**
Total temporary differences:	**59,770**	**(13,492)**	**(8,043)**	**(3,230)**	**35,005**
For temporary differences in CIT	46,274	(16,716)	(9,331)	-	20,227
R&D tax credits	2,064	3,224	1,288	-	6,576
For temporary differences in derivatives (Note 17)	11,432	-	-	(3,230)	8,202
Total deferred tax assets	**211,437**	**(5,039)**	**(14,128)**	**(3,230)**	**189,040**

2020 Financial Year

Thousand Euros	Opening Balance	Corporate Income Tax 2020	Income Tax From Other Adjustments Previous Year	For changes in derivative financial instruments	Closing Balance
Tax credit to offset losses	**-**	**153,856**	**-**	**-**	**153,856**
Total temporary differences:	**28,708**	**29,125**	**77**	**(329)**	**57,581**
For temporary differences in CIT	16,947	29,125	77	-	46,149
For temporary differences in derivatives (Note 17)	11,761	-	-	(329)	11,432
Total deferred tax assets	**28,708**	**182,981**	**77**	**(329)**	**211,437**

In the accounting recognition of tax credits, consultation 10 of BOICAC 80 has been taken into consideration. In this regard, at December 31, 2021 and 2020, tax credits have been recognised as the Company's Directors consider it probable that future earnings will be obtained that allow tax losses to be offset in the next 10 years. These future earnings have taken into consideration certain assumptions such as a sales growth of 4-6% from 2023 and in line with the Company's historical growth, as well as an operating result in line with the Business Plan.

At year-end, temporary differences contain deferred tax assets corresponding to tax losses of the Vueling branch in Italy.

18.6. Deferred tax liabilities

The breakdown of this account at the close of 2021 and 2020 is as follows:

Thousand Euros	**2021**	**2020**
Temporary differences	3,849	4,507
Changes in Financial Instruments- Derivatives and subsidies	28,887	9,747
Total deferred tax liabilities	**32,737**	**14,254**

Temporary Differences include a total of 3,673 thousand Euros is recorded as of December 31, 2021 (4,507 thousand Euros as of December 31, 2020) associated with the tax effect of the assets identified as "segments" and Goodwill as a result of the merger with Clickair. S.A. (see Notes 3 and 6).

Deferred Tax Liabilities generated by variations in Derivative Financial Instruments (see Note 17) and subsidies totaled 28,887 thousand Euros as of December 31, 2021 (9,747 thousand Euros as of December 31, 2020)

18.7. Financial years pending verification and inspection

In accordance with current legislation, taxes cannot be considered fully settled until the returns submitted have been inspected by the tax authorities, or the four-year time limit has expired.

The Directors of the Company consider that the settlements of the aforementioned taxes have been properly made so that, even in case of discrepancies in the current regulatory interpretation for the tax treatment granted to the operations, the possible resulting liabilities, should they materialise, would not significantly affect the attached Annual Accounts.

At December 31, 2021, the Company is subject to several tax inspections in the following jurisdictions:

Spain

On June 26, 2017, the tax authorities notified the Company of the start of the corresponding verification and investigation actions for the following taxes in the following periods:

Concept	**Periods**
Corporate Income Tax	2012 to 2014
VAT	06/2013 to 12/2014
Withholding/Income on Account Capital Gains	06/2013 to 12/2014
Withholdings/Income on Professional Ser./Salaries	06/2013 to 12/2014
Withholdings/Income on Real Estate Leases	06/2013 to 12/2014
Withholding on Non-Residents Tax	06/2013 to 12/2014
Special Tax on Property of Non-Residents	06/2013 to 12/2014

On September 2, 2019, the Central Delegation of Large Taxpayers (DCGG) issued a Settlement Agreement for Value Added Tax for the years 2013 and 2014, which was signed in disagreement. Finally, on September 25, settlement agreements were issued for withholdings on Earnings from Employment and Corporate Income Tax corresponding to the years 2012, 2013 and 2014, which have been signed in disagreement.

On November 24, 2020, the Central Economic-Administrative Court dismissed the economic-administrative claims filed against the liquidation agreements for withholdings on Earning from Employment or Professionals and for Corporate Income Tax. Vueling will proceed to file the corresponding contentious-administrative appeals within the corresponding deadline.

On the other hand, on November 18, 2019, the Tax Authorities notified the Company of the start of pertinent verifications and investigations, for the following taxes and periods:

Concept	Periods
VAT	10/2015 to 06/2018

During the process, the Tax Authorities requested all accounting information related to the periods open for inspection, as well as information related to the filing of the taxes detailed above.

On December 10, 2020, The Central Delegation of Large Taxpayers (DCGG) issued VAT settlement agreements for the years 2015 to 2018, which were signed in disagreement and filed an administrative economic claim.

Italy

On September 10, 2018, the Italian Tax Authorities notified the Company of the start of the corresponding verification and investigation for the following taxes in the following periods:

Concept	Períods
Imposta sul reddito sulle società – IRES	2014
imposta regionale sulle attività produttive – IRAP	2014
VAT	2014
Withholding/Income on Account Capital Gains	2014
Withholdings/Income on Professional Ser./Salaries	2014
Withholdings on Non-Residents Tax	2014

The Italian Tax Administration (Agenzia delle Entrate) has notified the Permanent Establishment of the Company in Italy of settlements for Corporate Tax and Regional Tax on Production Activities for the year 2014 which have been signed in disagreement. The Company has initiated an amicable procedure linked to Convention 90/436/EU, which will end in arbitration in the event of disagreement between the Italian and Spanish tax authorities.

Likewise, during the 2020 financial year, the Italian Tax Administration (Agenzia delle Entrate) notified the Permanent Establishment of the Company in Italy of the settlements for Corporate Tax and Regional Tax on Production Activities for the 2015 financial year, which was later substituted for a settlement agreement signed in disagreement. The corresponding allegations were filed against this agreement in October 2021. On the other hand, in December 2021 the acceptance of the opening of the amicable agreement procedure linked to Convention 90/436/EU, for the year 2015, was notified.

France

On August 6, 2019, the Company received notice from the French tax authorities that an inspection and review process would commence covering the following taxes and tax periods:

Concept	Periods
Value Added tax (VAT)	01/2016 to 06/2019

The French Tax Authorities notified the Company's Permanent Establishment in France of settlements for Value Added Tax corresponding to the 2016 financial year, which is in the appeal phase in contentious-administrative proceedings.

During the 2020 financial year, the French Tax Authorities notified the Company’s Permanent Establishment in France of settlements for Value Added Tax corresponding to the 2017, 2018 and 2019 financial years, which is in the appeal phase in contentious-administrative proceedings.

19. Revenue and expenses

19.1. Net turnover

The Company's sole ordinary activity consists of passenger air transport. Given that all other activity categories are complementary and do not present any significant differences, the notes to the annual accounts solely includes a breakdown of the information by geographic market segments.

The analytic breakdown of turnover by geographic market for 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Spain	619,579	417,133
Other countries	395,028	177,216
Total	**1,014,607**	**594,349**

19.2. Supplies

The heading "Supplies" in 2021 and 2020 relates primarily to the consumption of fuel and, to a lesser extent, to the consumption of greenhouse gas emission allowances.

19.3. Breakdown of purchases by origin

The breakdown of the purchases made by the Company in 2021 and 2020 according to their origin is as follows:

Thousand Euros	2021	2020
National	175,699	118,750
Intra-Community	52,060	55,633
Extra-Community	3,085	5,306
Total	**230,844**	**179,689**

19.4. Other operating revenue

The balance under the heading "Other operating revenue", in the 2021 and 2020 Income Statement, mainly is as follows:

Thousand Euros	2021	2020
Advertising	3,423	3,940
Free CO2 Subsidy	23,576	19,938
Social Security exemption	24,554	14,235
Total	**51,553**	**38,113**

19.5. Personnel

The breakdown of the heading "Personnel Expenses" in the Income Statement for 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Wages, salaries and similar	172,366	151,887
Severance pay	410	302
Social contributions (Social Security)	41,707	46,630
Other personnel expenses	622	1,722
Total	**215,105**	**200,541**

The average number of employees during the 2021 and 2020 financial years by category and gender is as follows:

2021 Financial Year

Categories	Men	Women	Total	Employees with a certified disability > 33 %
Airport Managerial	2	2	4	-
Airport Non-Managerial	17	14	31	-
Cabin Crew Managerial	126	408	534	-
Cabin Crew Non-Managerial	312	1,154	1,466	-
Corporate Managerial	86	72	158	-
Corporate Non-Managerial	214	203	417	5
Maintenance Managerial	6	-	6	-
Maintenance Non-Managerial	48	11	59	3
Captains	657	22	679	-
Co-pilots	581	34	615	-
Total	**2,049**	**1,920**	**3,969**	**8**

2020 Financial Year

Categories	Men	Women	Total	Employees with a certified disability > 33 %
Airport Managerial	2	2	4	-
Airport Non-Managerial	18	17	36	-
Cabin Crew Managerial	129	460	589	-
Cabin Crew Non-Managerial	316	1,088	1,403	-
Corporate Managerial	99	72	171	-
Corporate Non-Managerial	195	210	405	2
Maintenance Managerial	6	-	6	-
Maintenance Non-Managerial	78	17	95	6
Captains	653	23	676	-
Co-pilots	573	37	611	-
Total	**2,068**	**1,927**	**3,995**	**8**

Company staff at December 31, 2021 and 2020, broken down by category and gender, is as follows:

2021 Financial Year

Categories	Men	Women	Total	Employees with a certified disability > 33 %
Airport Managerial	2	2	4	**-**
Airport Non-Managerial	17	15	32	**-**
Cabin Crew Managerial	134	445	579	**-**
Cabin Crew Non-Managerial	331	1,168	1,499	**-**
Corporate Managerial	88	72	160	**-**
Corporate Non-Managerial	183	192	375	**4**
Maintenance Managerial	10	-	10	-
Maintenance Non-Managerial	83	18	101	**5**
Captains	649	22	671	**-**
Co-pilots	572	34	606	**-**
Total	**2,069**	**1,968**	**4,037**	**9**

2020 Financial Year

Categories	Men	Women	Total	Employees with a certified disability > 33 %
Airport Managerial	2	2	4	-
Airport Non-Managerial	17	14	31	-
Cabin Crew Managerial	127	421	548	-
Cabin Crew Non-Managerial	298	1,117	1415	-
Corporate Managerial	86	70	156	-
Corporate Non-Managerial	193	205	398	**2**
Maintenance Managerial	6	-	6	-
Maintenance Non-Managerial	76	17	93	**6**
Captains	661	22	683	-
Co-pilots	592	34	626	-
Total	**2,058**	**1,902**	**3,960**	**8**

At December 31, 2021, the Company's Board of Directors consisted of three men and two women (three men and two women at December 31, 2020).

At December 31, 2021, the Company's senior management consisted of three men and three women (five men and two women at December 31, 2020).

During 2020 and 2021, and as an exceptional measure due to the COVID-19 crisis, it was decided to furlough (ERTE) most of the Company's workforce. This measure has served to align costs with the Company's ordinary activity.

Costs for wages and salaries are presented net of the amounts borne by the State due to the furlough scheme. On the other hand, social security costs have been included in full under Personnel expenses in the Income Statement considering the bonuses received amounting to 24,554 thousand Euros (14,235 thousand Euros in 2020) as operating subsidies and have been included in the Other operating income line item of the Income Statement.

The average number of employees affected has been 117 due to the furlough scheme. The rest of the Company's employees have been affected by partial reductions in different percentages throughout the year.

19.6. Other operating costs

The breakdown of the heading "Other operating expenses" in the Income Statement for 2021 and 2020 is as follows:

Thousand Euros	2021	2020
Outsourced services:		
Aircraft maintenance	204,443	242,112
Aircraft leases	230,376	272,580
Other leases	4,039	4,296
Ground handling service	130,782	88,377
Airport fees	122,079	74,232
Air traffic control	65,566	43,174
Supplies and other expenses	48,548	88,978
Independent professional services	30,615	34,111
Advertising	24,301	17,921
Insurance, banking services and other items	18,975	14,264
Taxes	806	757
Losses, impairment and changes in trade provisions	(31,463)	119,620
Total other operating expenses	**849,067**	**1,000,423**

The aircraft maintenance expense includes scheduled maintenance (see Note 13.1), and additionally, the daily maintenance, totalling 98,203 thousand Euros (80,506 thousand Euros in 2020).

In 2020, the line item Impairment losses and changes in trade provisions included 94,742 thousand Euros relating to provisions for rentals and maintenance of 14 aircraft (see note 7). During the 2021 financial year, a reversal of the provision for 4 of the aircraft has been recorded since they have been considered necessary for operations taking into account the latest forecasts made by the Company. The reversal amounted to 28,493 thousand Euros.

19.7. Provisions for bad debts

Movements under provisions for bad debts in 2021 and 2020 are as follows:

2021 Financial Year

Thousand Euros	**Opening Balance**	**Allowances**	**Applications**	**Closing Balance**
Provisions for bad debts of loans for commercial operations	25,924	86	(19,277)	6,733

2020 Financial Year

Thousand Euros	**Opening Balance**	**Allowances**	**Applications**	**Closing Balance**
Provisions for bad debts of loans for commercial operations	1,046	25,061	(183)	25,924

The Company has recorded a loss of 19,497 thousand Euros in 2020 (of which 12,441 thousand Euros correspond to open positions of derivatives), due to the bad debt that was recorded in the airline Level Europa during the current year. In the 2021 financial year, this provision has been applied and 2,970 thousand euros have been recovered from the aforementioned airline

20. Transactions with Equity Instrument-based payments

Personnel expenses (Note 19.5) posted in year 2021 due to equity instrument-based payments amount to 2,148 thousand Euros (993 thousand Euros in year 2020).

The current Share Plan will be settled with Options on IAG´s Shares, whereby the latter transfers the cost of the plan to the Company. In 2021, IADP and PSP plans have been replaced by the RSP plan (restricted share plan) and FPIP (Full potential incentive plan). The latter plan is linked to achieving long term objectives. The additions of member's contributions and their utilisation do not differ.

21. Foreign Currency Transactions

The breakdown of the most significant balances and transactions in foreign currencies in 2021 and 2020, measured at the closing exchange rate and the average exchange rate for each period respectively is as follows:

Thousand Euros	**2021**	**2020**
Balances:		
Cash and other liquid equivalents	101,111	97,294
Long- and short-term guarantees and deposits	227,300	174,962
Maintenance provisions	704,584	574,844
Payables and other liabilities	205,769	96,865
Finance leases	155,523	147,423
Transactions:		
Purchases	200,173	160,916
Services received	358,127	416,125

Both balances and purchases and services received in foreign currency, at the balance sheet date, 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 2021 and 2020 as broken down in the following table:

Thousand Euros	**2021**	**2020**
Exchange rate (losses)/gains	(48,023)	39,609

The exchange rate differences corresponding to the year ended December 31, 2021, consist of unrealised exchange rate losses totalling 45,655 thousand Euros (losses amounting to 40,804 at December 31, 2020) and realised exchange rate losses totalling 2,368 thousand Euros (losses totalling 1,195 thousand Euros at December 31, 2020).

22. 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 and related persons at December 31, 2021 is 14 shares, which represent 0,00004682% of the total shares (14 shares in 2020, which represent 0,00004682% of the total shares).

Remuneration received by way of salaries and wages by Senior Management during the 2021 financial year amounts to 1,320 thousand Euros (1,839 thousand Euros in 2020). Remuneration for Senior Management which is paid by other group companies is not included.

In order to address situation caused by COVID-19, in 2021 members of Senior Management, remunerated by the Company or other group companies, have reduced their salary remuneration by between 40% and 10%.

At December 31, 2021, there are no obligations taken out with the directors relating to pensions or any outstanding balances with the Company.

In relation to article 229 of the Capital Companies Act, there are no direct or indirect conflicts of interests reported by the Directors and/or persons related to the board of directors.

In 2021, public liability insurance premiums of 868 thousand Euros have been paid to cover the Directors' liability with regard to damages and losses arising from their position (215 thousand Euros in 2020).

During 2021, the members of the Board of Directors and senior managers have also seen their salaries reduced as a cost-cutting measure. This measure was concluded on December 31, 2021.

23. Environmental information

The Company's Directors consider that the environmental risks resulting from its activity are minimal and, in any case, appropriately covered, and they consider that no additional liabilities will arise relating to these risks (see Note 5.12).

The Company did not incur any significant expenses or receive any subsidies relating to these risks in 2021 or 2020, except for the use in 2021 of Greenhouse Gas Emission Allowances for an amount of 30,671 thousand Euros (18,773 thousand Euros in 2020).

24. Guarantees with third parties

As an alternative to the deposits established (see Note 9.1), several financial institutions have presented bank guarantees in favour of the aircraft lessors to secure the Lease Contracts and for other items, basically in favour of airports and fuel supply companies.

At December 31, 2021, the guarantees extended by the Company to aircraft lessors stood at 64,014 thousand Euros (69,840 thousand Euros at December 31, 2020), and the guarantees extended to ground handling companies, airports and for fuel purchases stood at 79,176 thousand Euros (88,877 thousand Euros at December 31, 2020).

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

25. Auditors' fees

During the years 2021 and 2020. the fees related to the audit of the accounts and other services provided by the Company's auditor KPMG S.A., or by a company of the same group or related to the auditor have been the following:

Thousand Euros	**2021**	**2020**
Audit Services	227	213
Other verification services	27	36
Total Audit and Related Services	**254**	**249**
Other Services	-	-
Total Professional Services	**254**	**249**

26. Subsequent events

There have been no relevant subsequent events.

Vueling Airlines, S.A.

Management Report

Corresponding to the year ended December 31, 2021

Business Performance and Company Position

Vueling Airlines S.A. was set up in Spain in accordance with the Spanish Capital Companies Act. The Company's commercial activity consists of the operation and management of scheduled passenger air transport under the commercial name of Vueling.

Vueling was set up with the aim of becoming the leading new generation European airline, combining the seemingly irreconcilable advantages of the "low cost" model together with the highest standard of customer service.

In 2021, the Company has operated a network of flights with national and international destinations affected by mobility restrictions and a drop in demand due to the COVID-19 pandemic. The Company has bases in Spain (Barcelona, Madrid, Bilbao, Oviedo, Valencia, Alicante, La Coruña, Palma de Mallorca, Ibiza, Seville, Málaga, Tenerife, Santiago and Las Palmas), in Italy (Rome and Florence), in France (Paris) and in the Netherlands (Amsterdam). However, many of these bases, especially the international ones, have seen their activity affected and/or have been forced to temporarily close due to the state of alarm and the consequent drop in the Company's activity.

Vueling provides all its services with the aim of meeting the needs and expectations of its customers and providing its shareholders with a growing and sustainable return.

Throughout 2021, Vueling has increased its offer compared to 2020 but has continued to be impacted by the pandemic and international mobility restrictions. The available-seat-kilometers have increased by 57.3% if compared to the previous year. However, supply has been significantly lower than pre-pandemic levels: available-seat-kilometers have decreased by 47.0% if compared to 2019, especially in international markets, which are the markets that have been most affected by mobility restrictions.

Activity and traffic

Vueling carried 15,810,433 passengers in 2021. This represents an increase of 64.2% if compared to the same period of the previous year. The Company has operated 110,943 flights (49.1% more than the previous year) with a load factor of 76.6%.

Results

Vueling has recorded a net loss after tax of 350 million Euros in the 2021 financial year. In 2020 a net loss of 785 million Euros was recorded, while in 2019 a net profit of 132 million Euros was obtained.

Revenue

Vueling has obtained a total revenue of 1,015 million Euros in 2021. This number represents an increase of 70.7% if compared to the previous year. This value is related to the increase in activity, which has been significant both in available-seat-kilometres and in seats available (57.3% in available-seat-kilometres and 49.6% in seats available with respect to the previous year). The rise in the number of passengers carried was 64.2%. This increase has been caused by the growth in activity and the rise of 6.8% in the load factor, which has stood at 76.6%.
The average revenue per passenger was 64.2 Euros per passenger in 2021, which represents an increase of 4.7% compared to the total revenue per passenger of the previous year. On the other hand, unit income per available-seat-kilometres stood at 4.98 Euros, which represents a rise of 9.3% compared to the same period of the previous year.

Expenses

Costs have decreased by 6.6% compared to 2020 despite the increase in activity. This is due to the continuous cost cutting actions applied to try to compensate for the drop in revenue due to the scenario of low demand in which we find ourselves.

Unit fuel costs have fallen by 18.3% compared to the same period of the previous year. The unit cost excluding fuel has stood at 5.6 euro cents. This represents a reduction of 43.5% if compared to the same period of the previous year due to the better dilution of fixed costs given the increase in capacity and the cost cutting that has characterised these last two years.

Financial stability in a very difficult environment

Demand continued to be affected by COVID-19 in 2021, strongly impacting our revenues and supply, which have fallen 58.5% and 47.0%, respectively, compared to 2019. Vueling acted in this difficult situation by making continuous adjustments to capacity in order to try to adapt supply to demand and minimise losses, with the launch of cost reduction plans and a battery of actions to optimize cash. These actions have made it possible to end the year with a solid cash position.

Research and Development

The Company has not performed any significant research and development in 2021.

Risk and Uncertainty Policy and Management

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

Credit risk

Except for the transactions performed to hedge exchange rate risk, fuel and the balances payable to aircraft lessors, the Company has no significant credit risk concentrations. The transactions with currency and fuel derivatives are only executed with financial institutions with a high credit rating. Direct sales to passengers are carried out via credit cards and other alternative means of payment or in cash. Travel agency sales are also carried out via the BSP of IATA or via credit card and other alternative means of payment.

Liquidity risk

The Company carries out prudent management of liquidity risk based on holding sufficient cash, short-term financial investments and marketable securities, the availability of committed credit financing and sufficient capacity to sttle market positions.

In order to meet the cash requirements derived from COVID-19, on 30 April 2020, the Company signed an ICO-guaranteed loan for an amount of 262.000 thousand Euros, with a grace period of three years. (note 14)

Market risk

The Company is exposed to price risks from jet fuel. The Company has contracted derivative instruments to hedge the risk of future price fluctuations. The price risk management policy consists of hedging a specific percentage of Jet Fuel, the fuel used by aircraft (Note 17).

The Company is exposed to exchange-rate risks for currency transactions, mainly in US 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 US Dollars, the Company uses Currency Forward Contracts. The Company's Financial Department is responsible for managing the net position in US 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 can determine the dates of future payments in US Dollars to a high degree of accuracy. Therefore, almost all the planned payments in US Dollars are classified as firm commitments or highly probable forecast transactions for the purpose of Hedge Accounting.

The Company holds assets with short-term returns invested in deposits 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.

Treasury shares

On December 31, 2021, the Company had no treasury shares.

Significant Events after the Balance Sheet Date

There have been no relevant subsequent events.

Non-financial information statement

The Company is exempt from presenting the non-financial information statement since this information is included in a separate document in the consolidated management report publicly presented by International Consolidated Airlines Group, S.A. in time and in due form.

Vueling Airlines, S.A.

Annual Accounts 2021

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Board Member

Barcelona, 23 February 2022