# 2008 INTERIM REPORT

Aer Lingus

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# Aer Lingus Group plc

ISE: EIL1 LSE: AERL

## FIRST HALF RESULTS 2008

***Dublin, London, 28 August 2008:*** *Aer Lingus Group plc ("Aer Lingus"), an Irish low-cost, low-fares airline, providing both short and long haul services, today announced its first half results for the 6 months ended 30 June 2008.*

**Financial and Operating Highlights**

- Operating loss of €22.3m, down from operating profit of €2.6m in 2007. Loss driven by fuel costs which increased by €56.5m (48.7%).
- Overall revenue growth of 10.2% to €632.9m
  - Total passenger revenue of €606.2m up 10.4%
  - Passenger growth of 10.5% - an increase of 460,000 in passengers flown
  - Strong ancillary performance with revenue of €69.7m up 38.2%
  - Strong per passenger ancillary revenue €14.35 up from €11.47
  - Revenue per passenger maintained year on year
- Increased capacity (ASKs) of 24.1% (18.8% on short haul and 31.2% on long haul)
- Ongoing improvement in aircraft utilisation, up 5.0% on short haul and 4.5% on long haul
- Continued to drive value from shape and size of network through focus and growth of base operations and central airports
- Cashflow of €120.5m generated from operations
- Strong balance sheet with net cash of €802.6m
- Return on capital over the 12 months to 30 June 2008 of 17.4% (2007: 17.3%) compared with target of 15%.

**Strategic Highlights**

- Continued progress on cost reduction and efficiencies including completion of new maintenance contracts and agreements on flexibility and mobility with staff.
- Active management of network and fleet asset portfolio to drive maximum returns.
- Agreed new codeshare deal with United Airlines, due to commence 1 November 2008.
- Investment in long haul product through refurbishment of three of current fleet over winter season.

# Performance Review & Outlook

**Dermot Mannion, Aer Lingus Chief Executive, commented:** "The seasonally weaker first half has been marked by extremely difficult market conditions in the form of unprecedented fuel costs, slowing economic growth in our main markets and a weakness in dollar and sterling. Fuel is the most significant cost within the business and the €56.5 million increase in our first half fuel costs contributed significantly to a loss of €22.3 million. The Company has 70% of its estimated fuel requirement for the remaining four months of 2008 hedged at a rate of $1,137 per tonne and 20% of its 2009 requirement hedged at a rate of $1,165 per tonne.

Despite the difficult environment, Aer Lingus is making progress on the delivery of its business objectives and in particular, continues to demonstrate strong growth in ancillary revenue. Our continued focus on reducing operating costs was evidenced by progress on both maintenance and staff costs. During the period the Company secured agreement on the Programme for Continuous Improvement which will result in annualised savings of €20 million. We continue to drive value through actively managing our network portfolio and have taken prudent decisions with regard to phasing of fleet deliveries and deployment. Long haul capacity for Winter 2008/09 will decline by 11% year on year, compared to previous plans to grow by 1%, and short haul capacity in the same period will decline by 1% compared to a previous expectation of 2% growth. As previously indicated, we have agreed with Airbus the deferred delivery of an A330 aircraft from September 2009 to June 2010.

It is clear that the unprecedented cost of fuel and the difficult operating environment will continue to have a significant effect on the financial performance of the business and that there will be sustained fare pressure over the medium and longer term. Even with the reduction in fuel prices over the last few weeks, competitive pressure on fares and volumes will continue and we are at best expected to break even in the second half, delivering a loss for the full year. Looking further ahead, we will continue to develop new revenue partnerships and initiatives such as those with United Airlines and jetBlue. However it is now clear that we will require further fundamental changes in our operating cost base in order to minimise losses in 2009 and to help ensure the long term viability of the business."

# Financial Performance

| € million | 6 months ended 30 June 2008 | 2007 | % change |
|---|---|---|---|
| Revenue | | | |
| - Passenger revenue | | | |
| - Fare revenue | 536.5 | 498.9 | 7.5% |
| - Ancillary revenue | 69.7 | 50.4 | 38.3% |
| *- Total* | *606.2* | *549.3* | *10.4%* |
| - Cargo revenue | 24.1 | 22.5 | 7.1% |
| - Other revenue | 2.6 | 2.3 | 13.0% |
| **- Total** | **632.9** | **574.1** | **10.2%** |
| Operating costs | | | |
| - Fuel | (172.4) | (115.9) | 48.7% |
| - Other operating costs | (482.8) | (455.6) | 6.0% |
| **- Total** | **(655.2)** | **(571.5)** | **14.6%** |
| **Operating profit before employee profit share** | **(22.3)** | **2.6** | nm |
| Net finance income | 19.7 | 18.3 | 7.7% |
| Employee profit share (i) | - | (1.6) | nm |
| Exceptional items (ii) | (17.6) | (7.8) | 125.6% |
| **Profit before tax** | **(20.2)** | **11.5** | **nm** |
| Tax | (0.4) | (4.7) | (91.5%) |
| **Profit after tax** | **(20.6)** | **6.8** | nm |
| **EBITDAR (iii)** | **36.0** | **56.5** | **(36.3%)** |

| | 2008 | 2007 | % change |
|---|---|---|---|
| Passengers carried (‘000) | 4,858 | 4,398 | 10.5% |
| Average fare yield (€) | 110.43 | 113.43 | (2.6%) |
| Ancillary revenue per passenger (€) | 14.35 | 11.47 | 25.1% |
| Short haul utilisation (block hours per day) | 10.6 | 10.1 | 5.0% |
| Long haul utilisation (block hours per day) | 14.0 | 13.4 | 4.5% |

(i) The employee profit share charge is based on 0% (2007: 7.5%) of the total of operating profit and net finance income.
(ii) Compensation under PCI
(iii) Earnings before interest, tax, depreciation, amortisation and aircraft rentals.

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# Operating and Financial Overview

Aer Lingus' business has always been seasonal in nature with most of the profits generated in the second half of the year. The market conditions experienced year to date, with uncertainty in key economies and unprecedented fuel prices have greatly magnified this seasonality, resulting in an operating loss (before employee profit share) of €22.3m (2007: profit of €2.6m). EBITDAR has reduced by 36.2% to €36.0m and the Company recorded a net loss for the six months of €20.6m (2007: profit of €6.8m).

**Passenger Revenue**
Passenger revenue grew by 7.5% to 536.5m. An additional 460,000 passengers were carried in the 6 months to 30 June 2008 over the same period in 2007. Revenue per passenger (fare yield plus ancillary revenue) remained flat year on year. Total passenger load factor reduced by 5.1 points to 70.2%, mainly as a result of the 31.2% capacity increase on long haul.

**- Short haul**
Short haul capacity, measured by available seat kilometres (ASKs) grew by 18.8%. ASKs increased due to the full year effect of the delivery of four A320s in 2007, most of which were not operational in the first half of the year and also to a 5.0% increase in the average daily block hour utilisation over 2007 levels. The ASK growth was not matched by utilisation, measured by revenue passenger kilometres (RPKs), which increased by 16.5%. This resulted in a drop of 1.4 points in passenger load factor to 72.2%, however, total short haul passengers increased by 10.6% to 4,261,000. One further A320 was delivered in June 2008, bringing the total short haul fleet to 33 (27 A320, 6 A321).

The reduction in short haul fares was mostly offset by the growth in ancillary revenue per passenger, leading to comparable revenue per passenger year on year. It is anticipated that there will be continued pressure on fares for the remainder of the year and into 2009. The contribution of ancillary products to revenue per passenger will continue to be actively managed to counteract fare yield pressures.

**- Long haul**
There was a significant increase in long haul capacity in the period, where ASKs grew by 31.2% due to the full year effect of the introduction of two new long haul aircraft in 2007. An increase of 4.5% in the average daily block hour utilisation over 2007 levels also contributed to higher ASKs. The ASK growth was largely deployed on three new routes opened in late 2007 under Open Skies. This resulted in a 10.2 point decrease in load factor to 67.7%, as RPKs only increased by 14.5%. The impact on load factor is expected to be minimised in the second half of the year as the capacity increase year on year moderates, and this moderation was evidenced in July traffic statistics. Total long haul passengers increased by 9.5% to 597,000, and there was a slight uplift in average long haul fares at €294.38 (2007: €286.82). These fare yield trends are expected to continue for the rest of the year.

**- Ancillary**
Ancillary revenue shows another strong performance in the first half, with total ancillary revenues reaching €69.7m, up 38.2% on 2007. This increase was achieved as a result of additional passengers carried, and, significantly, through continued increase in per passenger spend, which increased by 25.1% to €14.35. The most significant ancillary revenue products are inflight sales revenue, baggage fees, online booking fees, seat selection and passenger travel insurance.

**Cargo**
Aer Lingus cargo strategy is to carry cargo on long haul routes, and on short haul routes where aircraft turnaround times permit. A solid performance was delivered given difficult market conditions as a result of the economic downturn in the US. Total cargo revenue increased by 7.1% to €24.1m (2007: €22.5m). Tonnage increased by 14.9% on 2007, while yields, excluding the industry fuel surcharge decreased by 15.6%. Revenue from the fuel surcharge increased by 47% and this was the primary driver of the overall increase in cargo revenue.

**Operating costs**
Total operating costs (before the employee profit share) increased by 14.6% to €655.2, mainly as a result of increased volumes and higher oil prices. The most significant cost areas were fuel costs, staff costs, airport charges and maintenance.

The largest increase was in fuel costs, which increased by €56.5m (48.7%) to €172.4m in spite of fuel hedging savings and US Dollar weakness. Fuel represented 26.3% of total costs in the period, up from 20.3% in 2007. The average cost of fuel in the period was $925 per tonne, compared to $662 per tonne in 2007.

Staff costs increased by 11.7% to €167.3m. Average numbers employed grew by 7.4% to 4,050 (2007: 3,770). Staff cost per passenger is in line with 2007. During the period the Company secured agreement on the Programme for Continuous Improvement which will result in annualised savings of €20 million.

Airport charges increased by 8.3% to €113.5m (2007: €104.8m). The increase in absolute terms was expected due to the growth in operations year on year. Airport charges unit cost decreased by 12.8% on 2007 due to savings from currency weakness of US Dollar and Sterling and reduced load factors.

During the period, the Company concluded new contracts with a number of world class suppliers on the provision of maintenance services. Maintenance costs for the six months to 30 June 2008, at €32.4m, reduced by €9.3m on the same period in 2007. This saving was mainly driven by the release of cost provisions which were no longer required once the new contracts were agreed.

**Employee profit share**
There is no provision for an employee profit share for the first six months of 2008 as a result of the losses incurred in the period.

**Financing income and costs**
Net finance income has increased by 7.7% on 2007 to €19.7m (2007: €18.3m). Finance income decreased slightly on 2007 due to the timing of cash outflows for aircraft purchases, but this was more than offset by a reduction in finance costs driven by reduced borrowing rates and currency gains.

**Exceptional items**
In June 2008, Aer Lingus reached agreement with the majority of staff to change their contracted terms and conditions as part of the Programme for Continuous Improvement. Provision of €17.6m was made at 30 June 2008 for the compensation due to these staff for loss of earnings resulting from the contract amendments.

**Balance sheet**
The Company has a strong balance sheet. Net cash (cash, deposits and available for sale financial assets, less debt) has increased by 5% since the year end, to €802.6m (31 December 2007: €757.0m). Significant cash flows in the six months to 30 June 2008 were driven by capital expenditure on fleet. A cash inflow of €186.7m was recorded due to financing of aircraft purchased in late 2007, and €75.2m was paid out for deposits on aircraft to be delivered from 2009 onwards.

# Operating and Financial Overview

**Fuel and currency hedging**
To achieve greater certainty on costs we manage our exposure to fluctuations in the price of fuel and foreign currency through hedging. At 30 June 2008, our estimated fuel requirements for 2008 were hedged as follows:

| | 6 months to 30 June 2008 | Full year 2008 |
|---|---|---|
| % hedged | 61% | 53% |
| Average price per tonne of jet fuel | $817 | $913 |

Since 30 June 2008, we have increased our fuel hedging for 2008. At 26 August 2008, our estimated fuel requirements for the remainder of 2008 were hedged as follows:

| | 4 months to 31 December 2008 | Full year 2008 | Full year 2009 |
|---|---|---|---|
| % hedged | 70% | 70% | 20% |
| Average price per tonne of jet fuel | $1,137 | $998 | $1,165 |

The blended rate for 90% of our total estimated fuel requirements in 2008 is $1,024 per tonne based on the combination of the above hedges and fuel already bought in the spot market. Assuming the balance of 2008 fuel is purchased at current forward rates, the total fuel bill for 2008 will be €390m (2007: €253m).

Our major foreign currency exposure is to the US dollar. At 30 June 2008, we had purchased 72% of our estimated US dollar trading requirements for 2008 at an average rate of €1=$1.49. In addition, we had purchased 59% and 17% of our estimated US dollar trading requirements for 2009 and 2010 at €1=$1.48 and €1=$1.52 respectively.

At 26 August 2008, our forward purchases of US dollars comprised 93% of the estimated trading requirements for the four months to 31 December 2008 at €1=$1.49, 70% of the estimated trading requirements for 2009 at a rate of €1=$1.48, and 38% of the estimated trading requirement for 2010 at €1 = $1.50.

**Fleet**
Aer Lingus fleet increased with the addition of one A320 during the 6 months to 30 June 2008. The Company has orders with Airbus for four A320 aircraft to be delivered between late 2010 and early 2011, with a further leased A320 to join the fleet in 2009. This will bring the short haul fleet to 38 aircraft.

On 10 April 2008, the Company's shareholders approved the purchase of 12 long haul aircraft for delivery between 2009 and 2016. These aircraft will allow Aer Lingus to upgrade the long haul fleet and will also underpin the Company's medium-term growth strategy.

Aer Lingus is committed to its medium-term long haul growth strategy. However, given the current economic conditions and high fuel prices, the Company continues to actively manage capacity. At the Company's AGM on 6 June 2008, it was announced that our long haul fleet will not increase in 2009 beyond the current nine units. This will be achieved by using new deliveries to replace existing units, giving increased levels of passenger amenities as well as improved economics and fuel burn. In addition, the company will continue to invest in the long haul product through its fleet refurbishment program on three of the current fleet over the Winter 08/09 period. Following this refurbishment and new deliveries in 2009, seven out of the total of nine aircraft will be new/upgraded aircraft.

# Future developments

**Network**
Aer Lingus continues to actively manage our network and fleet portfolios to ensure maximum shareholder return is achieved. As part of this ongoing review, the Company announced at the AGM on 6 June 2008 that services on the Dublin Los Angeles route would be suspended from 2 November 2008. This decision was taken as a direct result of the unprecedented increases in fuel costs, the weak US dollar and deteriorating economic conditions in the Company's main markets. Long haul capacity for Winter 2008/09 will decline by 11% year on year, compared to previous plans to grow by 1%, and short haul capacity in the same period will decline by 1% compared to a previous expectation of 2% growth. As previously indicated, we have agreed with Airbus the deferred delivery of an A330 aircraft from September 2009 to June 2010.

**Current Trading and Outlook**
It is clear that the unprecedented cost of fuel and the difficult operating environment will continue to have a significant effect on the financial performance of the business and that there will be sustained fare pressure over the medium and longer term. Even with the reduction in fuel prices over the last few weeks, competitive pressure on fares and volumes will continue and we are at best expected to break even in the second half, delivering a loss for the full year. Looking further ahead, we will continue to develop new revenue partnerships and initiatives such as those with United Airlines and jetBlue. However it is now clear that we will require further fundamental changes in our operating cost base in order to minimise losses in 2009 and to help ensure the long term viability of the business.

*Note on forward looking information*

*This Announcement contains forward-looking statements, which are subject to risks and uncertainties because they relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group or the industry in which it operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements referred to in this paragraph speak only as at the date of this Announcement. The Company will not undertake any obligation to release publicly any revision or updates to these forward-looking statements to reflect future events, circumstances, unanticipated events, new information or otherwise except as required by law or by any appropriate regulatory authority.*

# Appendix 1

**Summary results**
6 months to 30 June

| € million | 2008 | 2007 |
|---|---|---|
| Revenue | 632.9 | 574.1 |
| Operating costs | (655.2) | (571.5) |
| Operating profit – before employee profit share | (22.3) | 2.6 |
| Employee profit share | - | (1.6) |
| Exceptional items | (17.6) | (7.8) |
| Net finance income | 19.7 | 18.3 |
| Profit before tax | (20.2) | 11.5 |
| Tax | (0.4) | (4.7) |
| Profit after tax | (20.6) | 6.8 |

# Appendix 2

**Passenger statistics**
6 months to 30 June

| | 2008 | 2007 | % change |
|---|---|---|---|
| Passengers carried ('000)* | | | |
| Short haul | 4,261 | 3,853 | 10.6% |
| Long haul | 597 | 545 | 9.5% |
| Total | 4,858 | 4,398 | 10.5% |
| Revenue passenger kilometres (RPKs) (million)* | | | |
| Short haul | 4,377 | 3,756 | 16.5% |
| Long haul | 3,405 | 2,973 | 14.5% |
| Total | 7,782 | 6,729 | 15.6% |
| Available seat kilometres (ASKs) (million) | | | |
| Short haul | 6,061 | 5,104 | 18.8% |
| Long haul | 5,031 | 3,836 | 31.2% |
| Total | 11,092 | 8,940 | 24.1% |
| Passenger load factor (%)* | | | |
| Short haul | 72.2% | 73.6% | (1.9%) |
| Long haul | 67.7% | 77.5% | (12.6%) |
| Total | 70.2% | 75.3% | (6.8%) |
| Average fare (€) | | | |
| Short haul | 84.67 | 88.90 | (4.8%) |
| Long haul | 294.38 | 286.82 | 2.6% |
| Average number of seat equivalents** | | | |
| Short haul | 6,027 | 5,365 | 12.3 |
| Long haul | 3,375 | 2,708 | 24.6 |
| Total | 9,402 | 8,073 | 16.5 |

* Based on flown passenger numbers
** Seat equivalent represents the equivalent of a seat on an aircraft based on the manufacturer's all-economy class configuration

# Group Income Statement

Six months ended 30 June

| | Note | 2008 €'000 | 2007 €'000 |
|---|---|---|---|
| **Revenue** | 2 | **632,905** | 574,149 |
| **Operating expenses** | | | |
| Staff costs | | **167,317** | 149,835 |
| Depreciation, amortisation and impairment | | **34,258** | 28,899 |
| Aircraft operating lease costs | | **24,069** | 25,044 |
| Fuel and oil costs | | **172,413** | 115,916 |
| Maintenance expenses | | **32,357** | 41,647 |
| Airport charges | | **113,501** | 104,836 |
| En-route charges | | **28,886** | 25,853 |
| Distribution costs | | **27,607** | 26,779 |
| Ground operations, catering and other operating costs | | **49,991** | 49,257 |
| Other losses – net | | **4,814** | 3,478 |
| Employee profit share | | **-** | 1,569 |
| | | **655,213** | 573,113 |
| **Operating (loss)/profit before exceptional items** | | **(22,308)** | 1,036 |
| Exceptional items | 3 | **(17,543)** | (7,857) |
| **Operating loss after exceptional items** | | **(39,851)** | (6,821) |
| Finance income | 4 | **30,042** | 31,913 |
| Finance costs | 4 | **(10,385)** | (13,600) |
| **(Loss)/profit before taxation** | | **(20,194)** | 11,492 |
| Income tax charge | | **(387)** | (4,683) |
| **(Loss)/profit for the period** | 2 | **(20,581)** | 6,809 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(20,581)** | 6,809 |

**Earnings per share for (loss)/profit attributable to the equity holders of the Company during the period** (expressed in € cent per share)

| | Note | 2008 | 2007 |
|---|---|---|---|
| – basic | 5 | (3.9)c | 1.3c |
| – diluted | 5 | (3.9)c | 1.3c |

# Group Balance Sheet

| | Note | 30 June 2008 €'000 | 31 Dec 2007 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 706,141 | 663,100 |
| Intangible assets | | 4,515 | 3,797 |
| Available for sale financial assets | | 100,708 | 105,823 |
| Deposits and restricted cash with maturity greater than 12 months | 6 | 110,672 | 119,513 |
| | | 922,036 | 892,233 |
| Current assets | | | |
| Inventories | | 1,643 | 874 |
| Derivative financial instruments | | 27,691 | 10,683 |
| Trade and other receivables | | 86,025 | 65,219 |
| Current income tax receivables | | 5,071 | 5,071 |
| Cash, cash equivalents and deposits with maturity less than 3 months | 6 | 3,557 | 4,953 |
| Deposits and restricted cash with maturity greater than 3 months | 6 | 1,113,430 | 901,985 |
| | | 1,237,417 | 988,785 |
| Total assets | | 2,159,453 | 1,881,018 |
| **EQUITY** | | | |
| Called up share capital | 8 | 26,697 | 26,575 |
| Share premium | 9 | 506,848 | 502,108 |
| Capital conversion reserve fund | | 5,048 | 5,048 |
| Capital redemption reserve fund | 9 | 343,516 | 343,516 |
| Other reserves | | (12,688) | (144) |
| Retained earnings | | 46,228 | 66,809 |
| Total equity | | 915,649 | 943,912 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Borrowings | 7 | 481,785 | 333,311 |
| Derivative financial instruments | | 23,235 | 10,055 |
| Deferred tax liabilities | | 18,607 | 19,316 |
| Provisions for other liabilities and charges | | 46,806 | 60,416 |
| | | 570,433 | 423,098 |
| Current liabilities | | | |
| Trade and other payables | | 579,888 | 435,257 |
| Borrowings | 7 | 44,010 | 41,945 |
| Derivative financial instruments | | 21,016 | 6,229 |
| Provisions for other liabilities and charges | | 28,457 | 30,577 |
| | | 673,371 | 514,008 |
| Total liabilities | | 1,243,804 | 937,106 |
| Total equity and liabilities | | 2,159,453 | 1,881,018 |

# Group Cash Flow Statement

6 months ended 30 June

| | Notes | 2008 €'000 | 2007 €'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 10 | 120,449 | 142,788 |
| Interest paid | | (8,305) | (12,007) |
| Income tax paid | | - | (184) |
| Net cash generated from operating activities | | 112,144 | 130,597 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment (PPE) | | (75,247) | (133,502) |
| Proceeds from sale of PPE | | - | 6 |
| Purchases of intangible assets | | (2,770) | (1,931) |
| Disposal of available for sale financial assets | | - | 10,242 |
| Decrease in deposits and restricted cash with maturity greater than 3 months | | (225,399) | (19,027) |
| Interest received | | 27,612 | 28,807 |
| Dividends received | | - | 1,156 |
| Net cash used in investing activities | | (275,804) | (114,249) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | | 4,862 | |
| Proceeds from borrowings | | 186,730 | 648 |
| Repayments of borrowings | | (26,495) | (20,525) |
| Net cash generated/(used) from financing activities | | 165,097 | (19,877) |
| **Net increase/(decrease) in cash, cash equivalents and bank overdrafts** | | 1,437 | (3,529) |
| Cash, cash equivalents and bank overdrafts at beginning of the period | 6 | (12,185) | (1,226) |
| Exchange losses on cash and bank overdrafts | | (687) | (118) |
| **Cash, cash equivalents and bank overdrafts at end of the period** | 6 | (11,435) | (4,873) |

# Group Statement of Changes in Equity

| | Notes | Called up share capital €'000 | Share premium €'000 |
|---|---|---|---|
| **Balance at 1 January 2007** | 8,9 | 26,450 | 497,958 |
| Profit for the period | | - | - |
| Fair value hedges | | | |
| - Fair value losses in period | | - | - |
| - Deferred tax on losses in period | | - | - |
| Cash flow hedges | | | |
| - Fair value gains in period | | - | - |
| - Deferred tax on fair value gains in period | | - | - |
| - Transfer to fuel costs | | - | - |
| - Deferred tax on transfer to fuel costs | | - | - |
| - Transfer for foreign exchange costs | | - | - |
| - Deferred tax on transfer to foreign exchange costs | | - | - |
| **Balance at 30 June 2007** | 8,9 | 26,450 | 497,958 |
| **Balance at 1 January 2008** | 8,9 | 26,575 | 502,108 |
| Loss for the period | | - | - |
| Fair value hedges | | | |
| - Fair value gains in period | | - | - |
| - Deferred tax on fair value gains in period | | - | - |
| Cash flow hedges | | | |
| - Fair value losses in period | | - | - |
| - Deferred tax on fair value losses in period | | - | - |
| - Transfer to fuel costs | | - | - |
| - Deferred tax on transfer to fuel costs | | - | - |
| - Transfer to foreign exchange costs | | - | - |
| - Deferred tax on transfer to foreign exchange costs | | - | - |
| **Total recognised gain/(loss) for the 6 months to 30 June 2008** | | - | - |
| Issue of bonus shares | | 3 | (3) |
| Issue of new shares | | 119 | 4,743 |
| **Balance at 30 June 2008** | 8,9 | **26,697** | **506,848** |

| Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|
| Capital conversion reserve fund €'000 | Capital redemption reserve fund €'000 | Cash flow hedging reserve €'000 | Available for sale reserve €'000 | Treasury shares €'000 | Share based payment reserve €'000 | Retained earnings €'000 | Total equity €'000 |
| 5,048 | 343,516 | (19,263) | 1,053 | - | - | (38,456) | 816,306 |
| - | - | - | - | - | - | 6,809 | 6,809 |
| - | - | - | (1,208) | - | - | - | (1,208) |
| - | - | - | 151 | - | - | - | 151 |
| - | - | 5,187 | - | - | - | - | 5,187 |
| - | - | (648) | - | - | - | - | (648) |
| - | - | 8,471 | - | - | - | - | 8,471 |
| - | - | (1,142) | - | - | - | - | (1,142) |
| - | - | 8,142 | - | - | - | - | 8,142 |
| - | - | (1,018) | - | - | - | - | (1,018) |
| 5,048 | 343,516 | (271) | (4) | - | - | (31,647) | 841,050 |
| 5,048 | 343,516 | (261) | 3,953 | (4,275) | 439 | 66,809 | 943,912 |
| - | - | - | - | - | - | (20,581) | (20,581) |
| - | - | - | 562 | - | - | - | 562 |
| - | - | - | (71) | - | - | - | (71) |
| - | - | (6,191) | - | - | - | - | (6,191) |
| - | - | 774 | - | - | - | - | 774 |
| - | - | (5,463) | - | - | - | - | (5,463) |
| - | - | 683 | - | - | - | - | 683 |
| - | - | 2,313 | - | - | - | - | 2,313 |
| - | - | (289) | - | - | - | - | (289) |
| **-** | **-** | **(8,173)** | **491** | **-** | **-** | **(20,581)** | **(28,263)** |
| - | - | - | - | - | - | - | -- |
| - | - | - | - | (4,862) | - | - | -- |
| 5,048 | 343,516 | (8,434) | 4,444 | (9,137) | 439 | 46,228 | 915,649 |

# Notes to the Financial Statements

**1. Basis of Preparation**

The Group Interim Financial Statements as at 30 June 2008, which are abridged and unaudited, have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Financial Reporting). These statements have been prepared in accordance with the accounting policies set out in the Group's Annual Financial Statements for the year ended 31 December 2007. The Group Annual Financial Statements were drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements.

**2. Segmental Information**

The Group considers that its business segments are its primary basis of analysing financial performance and reflect the internal management structure and reporting. Information is also provided on a geographic segment basis.

**Primary Reporting Format - Business Segment**

The Group is primarily organised into two business segments - passenger (which includes revenues and costs relating to the carriage of passengers) and cargo (which relates to the revenues and costs from the transportation of cargo). Ancillary revenues, including on board sales, are included in the passenger segment together with their associated costs. For internal management purposes, direct operating costs are allocated between the segments based on their contributions to route revenue. Certain costs, assets and liabilities (including the aircraft and their related financing arrangements) contribute to both the passenger and cargo segments and as such cannot be directly attributed to either segment and are therefore shown as unallocated.

| 6 months ended 30 June 2008 | Passenger<br>2008<br>€'000 | Cargo<br>2008<br>€'000 | Unallocated[1]<br>2008<br>€'000 | Total<br>2008<br>€'000 |
|---|---|---|---|---|
| Passenger revenue | 536,508 | - | - | **536,508** |
| Ancillary revenue | 69,697 | - | - | **69,697** |
| Other revenue | 2,645 | - | - | **2,645** |
| Cargo revenue | - | 24,055 | - | **24,055** |
| Segment revenue | 608,850 | 24,055 | - | **632,905** |
| Operating loss before exceptional items | 14,428 | 2,336 | (39,072) | **(22,308)** |
| Exceptional items | - | - | (17,543) | **(17,543)** |
| Operating loss after exceptional items | 14,428 | 2,336 | (56,615) | **(39,851)** |
| Finance income | | | | **30,042** |
| Finance costs | | | | **(10,835)** |
| Loss before taxation | | | | **(20,194)** |
| Income tax charge | | | | **(387)** |
| Loss for period | | | | **(20,581)** |

(1) Unallocated includes depreciation in relation to unallocated assets of (€34.3 million), other losses of (€4.8 million) and exceptional costs of (€17.6 million).

| 6 months ended 30 June 2007 | Passenger 2008 €'000 | Cargo 2008 €'000 | Unallocated(2) 2008 €'000 | Total 2008 €'000 |
|---|---|---|---|---|
| Passenger revenue | 498,901 | - | - | 498,901 |
| Ancillary revenue | 50,433 | - | - | 50,433 |
| Other revenue | 2,312 | - | - | 2,312 |
| Cargo revenue | - | 22,503 | - | 22,503 |
| Segment revenue | 551,646 | 22,503 | - | 574,149 |
| Operating profit before exceptional items | 32,390 | 2,592 | (33,946) | 1,036 |
| Operating profit after exceptional items | 32,390 | 2,592 | (41,803) | (6,821) |
| Finance income | | | | 31,913 |
| Finance expense | | | | (13,600) |
| Profit before taxation | | | | 11,492 |
| Taxation charge | | | | (4,683) |
| Profit for year | | | | 6,809 |

(2) Unallocated includes depreciation in relation to unallocated assets of (€28.9 million), other losses of (€3.5 million, profit share of (€1.6 million) and exceptional costs of (€7.8 million)

## 3. Exceptional Items

| | 6 months ending 30 June 2008 €'000 | 2007 €'000 |
|---|---|---|
| Takeover defence costs | - | 7,857 |
| Compensation under PCI | 17,543 | - |
| | 17,543 | 7,857 |

## 4. Finance Income and Finance Costs

| | 6 months ending 30 June 2008 €'000 | 2007 €'000 |
|---|---|---|
| **Finance income** | | |
| Interest on cash and term deposits | 28,578 | 29,162 |
| Interest income on available for sale financial assets | 1,464 | 1,595 |
| Dividends received | - | 1,156 |
| | 30,042 | 31,913 |
| **Finance costs** | | |
| On bank loans and overdrafts | 96 | 785 |
| Finance lease interest | 10,061 | 12,371 |
| Other interest | - | - |
| Finance charge on discounted provision | 228 | 444 |
| | 10,385 | 13,600 |

# Notes to the Financial Statements

## 5. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding shares issued under the Long Term Incentive Plan.

| | 6 months ending 30 June | |
|---|---|---|
| | **2008** | 2007 |
| (Loss)/profit attributable to equity holders of the Company | **(20,581)** | 6,809 |
| Weighted average number of ordinary shares in issue (000's) | **530,714** | 528,991 |
| Basic (loss)/earnings per share (€ cent per share) | **(3.9c)** | 1.3c |

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 30 June 2007, the Company had one category of dilutive potential ordinary shares in it bonus shares.

| | 6 months ending 30 June | |
|---|---|---|
| | **2008** | 2007 |
| (Loss)/profit attributable to equity holders of the Company used to determine diluted earnings per share | **(20,581)** | 6,809 |
| Weighted average number of ordinary shares in issue (000's) | **530,714** | 528,991 |
| Adjustments for: | | |
| - Bonus shares of 1 for 20, October 2007 | - | 863 |
| Weighted average number of ordinary shares for diluted earnings per share | **530,714** | 529,854 |
| Diluted (loss)/earnings per share (€ cent per share) | **(3.9c)** | 1.3c |

## 6. Cash, cash equivalents and other deposits

| | As at 30 June 2008 €'000 | As at 31 December 2007 €'000 |
|---|---|---|
| Cash and deposits with maturity less than 3 months | 3,557 | 4,953 |
| Restricted cash | 117,311 | 125,293 |
| Deposits with maturity greater than 3 months | 1,106,791 | 896,205 |
| | 1,224,102 | 1,021,498 |
| **Less non current portion** | (110,672) | (119,513) |
| **Current** | 1,113,430 | 901,985 |
| Total cash, cash equivalents and other deposits | 1,116,987 | 906,938 |

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

| | | |
|---|---|---|
| Cash and deposits with an original maturity of less than 3 months | 3,557 | 4,953 |
| Bank overdrafts (Note 7) | (14,992) | (17,138) |
| | (11,435) | (12,185) |

## 7. Borrowings

| | As at 30 June 2008 €'000 | As at 31 December 2007 €'000 |
|---|---|---|
| Bank overdraft | | |
| Repayable – within one period | 14,992 | 17,138 |
| Finance lease obligations | | |
| Repayable - within one period | 29,018 | 24,807 |
| - from one to two periods | 60,900 | 56,433 |
| - from two to five periods | 132,215 | 121,280 |
| - after five periods | 288,670 | 155,598 |
| | 510,803 | 358,118 |
| Less current portion | (29,018) | (24,807) |
| Non-current portion | 481,785 | 333,311 |
| Total interest bearing loans and borrowings | | |
| Current portion | 44,010 | 41,945 |
| Non-current portion | 481,785 | 333,311 |
| | 525,795 | 375,256 |

# Notes to the Financial Statements

## 8. Called-up share capital

| | As at 30 June 2008 €'000 | As at 31 December 2007 €'000 |
|---|---|---|
| **Authorised:** | | |
| 900,000,000 ordinary shares of €0.05 each | 45,000 | 45,000 |
| **Issued and fully paid:** | | |
| At 1 January | 26,575 | 26,450 |
| Issued during period: 2,449,097 @ €0.05 | 122 | - |
| Issued during 2007: 2,514,819 @ €0.05 | - | 125 |
| At 30 June | 26,697 | 26,575 |

In April 2008, 52,138 shares were issued in respect of an allotment of shares to satisfy Bonus Share Incentive entitlements entered into at the time of the Company's Initial Public Offering. In May 2008, 2,396,959 shares were issued in respect of the Company's Long Term Incentive Plan (LTIP), for the vesting period ending 31 December 2010.

The total number of ordinary shares of €0.05 each in issue at 30 June 2008 was 533,954,468 (31 December 2007: 531,505,371 shares).

## 9. Share premium and capital redemption reserve fund

| | As at 30 June 2008 €'000 | As at 31 December 2007 €'000 |
|---|---|---|
| **Share premium** | | |
| Beginning of period | 502,108 | 497,958 |
| Shares issued at premium | 4,743 | 4,185 |
| Issue of bonus shares | (3) | (35) |
| End of period | 506,848 | 502,108 |

| | As at 30 June 2008 €'000 | As at 31 December 2007 €'000 |
|---|---|---|
| **Capital redemption reserve fund** | | |
| At beginning and end of period | 343,516 | 343,516 |

## 10. Cash Generated From Operations

| | 6 months ending 30 June | |
|---|---|---|
| | 2008 | 2007 |
| | €'000 | €'000 |
| (Loss)/profit before tax | (20,194) | 11,492 |
| Adjustments for: | | |
| – Depreciation | 32,206 | 27,832 |
| – Amortisation | 2,052 | 1,067 |
| – (Loss) on sale of property, plant and equipment | - | (4) |
| – Net movements in provisions for liabilities and charges | (13,784) | (14,605) |
| – Net fair value losses on derivative financial instruments | 1,619 | 463 |
| – Finance income – net (Note 4) | (19,657) | (18,313) |
| – Exceptional items (Note 3) | 17,543 | 7,857 |
| – Other losses – net | 4,814 | 3,808 |
| Changes in working capital | | |
| – Inventories | (769) | 171 |
| – Trade and other receivables | (26,162) | (32,463) |
| – Trade and other payables | 142,781 | 155,483 |
| Cash generated from operations | 120,449 | 142,788 |

## 11. Related party transactions

In the 6 months to 30 June 2008, there have been no changes in related party transactions described in the annual report in the 2007 annual report that materially affect the financial position or performance of the Company.

## 12. Employee Profit Sharing Scheme

At the time of the IPO, a new profit sharing scheme was established whereby the Group agreed to make available to the Employee Share Ownership Trust, depending on the return on average shareholders' funds, between 0% and 7.5% of the group profit before taxation and exceptional items annually, commencing on 1 January 2006. Provision has been made at the rate of 0% for the 6 months to 30 June 2008.

## 13. Principal risks and uncertainties

In common with many businesses, the Group is exposed to a range of risks. The principal risks to which the Group will be exposed in the second half of the financial year are substantially the same as those discussed in the 2007 annual report.

## 14. Responsibility Statement

We confirm that to the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the abridged interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the interim group management report includes a fair review of the development and performance of the Group during the first six months of 2008, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remaining part of the year.

**J Sharman** CHAIRMAN

**D Mannion** DIRECTOR

Approved by the Board of Directors on 26 August 2008

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