Aer Lingus Group plc

ISE: EIL1 LSE: AERL

FIRST HALF RESULTS

Dublin, London, 31 August 2011: Aer Lingus Group plc ("Aer Lingus", "the Group") today announces its results for the quarter and six-month periods ending 30 June 2011.

	Q2 2011	Q2 2010	Change	H1 2011	H1 2010	Change
Passengers ('000s)	2,582	2,385	8.3%	4,363	4,405	(1.0%)
Average yield per passenger (€)	113.13	106.17	6.6%	106.94	98.66	8.4%
Revenue (€m)	351.2	308.0	14.0%	569.1	538.0	5.8%
Operating costs (€m)	325.3	289.2	12.5%	596.9	557.0	7.2%
Operating profit /(loss) [1] (€m)	25.9	18.8	37.8%	(27.8)	(19.0)	46.3%
Profit/(loss) before tax (€m)	42.2	15.4	174.0%	(14.2)	(20.8)	(31.7%)

[1] Before net exceptional items

	30 Jun 2011	31 Mar 2011	Change	30 Jun 2011	31 Dec 2010	Change
Gross cash (€m)	919.4	925.1	(0.6%)	919.4	885.0	3.9%

Q2 2011 highlights

- Significant year-on-year improvement in operating profit to €25.9m (Q2 2010 operating profit of €18.8m)
- Profit before tax of €42.2m compared to profit before tax of €15.4m in Q2 2010
- Total passenger numbers increased by 8.3% in the quarter, with short haul up 8.6% and long haul up 4.8%
- Positive yield performance continues to contribute to year-on-year revenue growth. Yield per passenger was up 6.6% compared to Q2 2010
- Comparative quarterly performance was helped by the absence of airspace closures which impacted 2010 results

H1 2011 highlights

- Operating loss of €27.8m compared to a loss of €19.0m in H1 2010
- Loss before tax of €14.2m compared to loss before tax of €20.8m in H1 2010
- Strong recovery in Q2 following disruptions caused by the IMPACT cabin crew dispute in Q1
- H1 revenue up 5.8% compared to H1 2010
- Continued cost discipline reflected in a 5.9% year-on-year reduction in staff costs
- Free cash flow of €16m after settlement with the Irish Revenue (H1 2010: cashflow of €56m)
- Strong forward booking profile suggests that 2011 operating profit will be better than originally anticipated
- Balance sheet remains strong including gross cash of €919.4m as at 30 June 2011

Christoph Mueller, Aer Lingus' CEO, commented: *"Aer Lingus experienced a strong second quarter, reporting an operating profit of €25.9m which was significantly ahead of prior year. This result was underpinned by the continuing positive impact of our capacity management strategy, stabilised passenger numbers, strong yield growth and the absence of airspace closures in Northern Europe which occurred in 2010. However, first half losses were higher than last year mainly due to the IMPACT cabin crew dispute at the start of the year.*

Although economic conditions in Ireland remain challenging, we are pleased with the booking profile for the rest of the year and we are positive about our trading prospects for the remainder of 2011. We expect revenue growth in the second half to be broadly similar to that of the first six months. As a result, we are more positive about the profitability of the business in 2011 than we were at the start of the year.

Our ability to generate returns in the current environment reflects the changes we have made to our business model over the past two years including a demand led network strategy, focus on revenue per seat and implementation of the Greenfield cost reduction programme. We continue to believe that Aer Lingus is a valuable business. We have a strong balance sheet with high levels of cash, a modern fleet and a high quality product. These combine with our relatively low cost base to create profitable short and long haul networks."

A presentation for shareholders and analysts will be held on 31 August 2011 at 09.00 (BST). This will be available on a live webcast at www.aerlingus.com.

Contacts

Investors & analysts
Declan Murphy, Aer Lingus Group plc
Tel: + 353 1 886 2228
Email: investor.relations@aerlingus.com

Jonathan Neilan, K Capital Source
Tel: +353 1 663 3686
Email: jonathan.neilan@fd.com

Media
Declan Kearney, Aer Lingus Group plc
Tel: +353 1 886 3662
Email: declanp.kearney@aerlingus.com

Irish media
Sheila Gahan/Brian Bell, Wilson Hartnell Public Relations
Tel: +353 1 669 0030
Email: sheila.gahan@ogilvy.com; brian.bell@ogilvy.com

International media
Matthew Fletcher, Powerscourt
Tel: +44 207 250 1446
Email: matthew.fletcher@powerscourtmedia.com

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 Group 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.

Note on unaudited operating and financial information
This Announcement contains unaudited operating and financial information in relation to the business of Aer Lingus extracted from the following sources: (1) management accounts for the relevant accounting periods; (2) internal financial and operating reporting systems supporting the preparation of financial statements; and (3) internal non-financial operating reporting systems. These management accounts are prepared using information extracted from accounting records used in the preparation of the Group's historical financial information, although they may also include certain other management assumptions and analyses.

Financial performance

	Three months ended 30 June			Six months ended 30 June		
	2011	2010	Change	**2011**	2010	Change
	€m	€m		**€m**	€m	
Revenue						
- Passenger revenue						
- Fare revenue	**292.1**	253.3	15.3%	**466.6**	434.6	7.4%
- Ancillary revenue	**45.0**	42.1	6.9%	**77.5**	80.7	(4.0%)
- *Total*	***337.1***	*295.4*	*14.1%*	***544.1***	*515.3*	*5.6%*
- Cargo revenue	**11.3**	10.2	10.8%	**22.0**	19.2	14.6%
- Other revenue	**2.8**	2.4	16.7%	**3.0**	3.5	(14.3%)
- Total	**351.2**	308.0	14.0%	**569.1**	538.0	5.8%
Operating costs						
- Fuel	**(77.4)**	(77.2)	0.3%	**(129.6)**	(132.1)	(1.9%)
- Staff costs	**(66.6)**	(68.4)	(2.6%)	**(127.7)**	(135.7)	(5.9%)
- Other operating costs	**(181.3)**	(143.6)	26.3%	**(339.6)**	(289.2)	17.4%
- Total	**(325.3)**	(289.2)	12.5%	**(596.9)**	(557.0)	7.2%
Operating profit/(loss) before net exceptional items	**25.9**	18.8	37.8%	**(27.8)**	(19.0)	46.3%
Net exceptional items [i]	**17.1**	(5.0)	NM	**14.9**	(5.0)	NM
Operating profit/(loss) after net exceptional items	**43.0**	13.8	211.6%	**(12.9)**	(24.0)	(46.2%)
Net finance income/(expense)	**(0.8)**	1.6	NM	**(1.3)**	3.2	NM
Profit/(loss) before tax	**42.2**	15.4	174.0%	**(14.2)**	(20.8)	(31.7%)
EBITDAR [ii]	**56.7**	50.7	11.8%	**34.9**	46.3	(24.6%)
Passengers carried ('000) *	**2,582**	2,385	8.3%	**4,363**	4,405	(1.0%)
Average yield (€) *	**113.13**	106.17	6.6%	**106.94**	98.66	8.4%
Ancillary revenue per passenger (€) *	**17.43**	17.65	(1.2%)	**17.76**	18.32	(3.0%)
Available seat kilometres (ASKs) (m) *	**5,218**	4,705	10.9%	**8,869**	8,808	0.7%
Passenger load factor *	**74.1%**	76.7%	(2.6pts)	**71.0%**	73.2%	(2.2pts)

	30 June 2011	31 March 2011	Change	**30 June 2011**	31 December 2010	Change
Gross cash	**919.4**	925.1	(0.6%)	**919.4**	885.0	3.9%
Debt (excluding bank overdrafts)	**561.8**	547.7	2.6%	**561.8**	535.2	5.0%

US$ exchange rates prevailing during the period and at the balance sheet date are set out below:

US$	**3 months ended 30 June**		**6 months ended 30 June**	
	2011	**2010**	**2011**	**2010**
Period average	1.43	1.30	1.40	1.34
Period end rate	1.43	1.23	1.43	1.23

NM Not meaningful

(i) Revenues and costs associated with the re-measurement of provisions for restructuring costs, closure of northern European airspace, fleet management and closing out certain hedges.

(ii) Earnings before interest, tax, depreciation, amortisation, aircraft rentals and net exceptional items

* Based on flown passengers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid code share service operated in partnership with United Airlines

Business review

Following changes in the Group's senior management in 2009, substantial changes were made to Aer Lingus' strategy coupled with urgent actions to address its financial situation. The actions included:

- Reduction of long haul capacity and closure of loss making routes
- Reductions in capacity on over-served short haul routes
- Pricing policy was re-focused onto yield per seat rather than load factor
- Launch of a €97m cost saving programme (known as "Greenfield")

As a result of these actions, Aer Lingus returned to profit in 2010, delivering an operating profit before exceptional items of €57.6m, despite the difficult economic situation in Ireland, its principal market. Notwithstanding this return to profitability, it was always recognised that the changes required to the business, and in particular to complete the cost reduction programme, would take more than one year and would require continued focus in 2011.

Aer Lingus entered 2011 against a very difficult economic backdrop, shortly after austerity measures imposed by the European Central Bank and the IMF at the end of 2010. Aer Lingus is a "demand led" airline which matches capacity to the natural level of demand in its markets. The commercial objective for 2011 was to attempt to repeat 2010's performance with a continued focus on improving yield management with the same level of overall capacity (when adjusted for flights lost to airspace closures caused by the volcanic ash disruption which closed Northern European airspace during Q2 2010). While overall capacity remains unchanged, there were some changes to the Group's route network in H1 2011 with increased capacity applied to time sensitive routes and less flying on some leisure routes.

Aer Lingus expected to face another very difficult trading environment with softness in the Irish economy likely to dampen revenue growth while, at the same time, the business would have to cope with fuel price inflation and substantial price increases at its Dublin Airport hub. On the cost side, Aer Lingus' target was that the business would continue to strive for improved operational cost efficiencies, recognising that, at the end of 2010, only approximately half of the targeted €97m of cost savings had been achieved.

Trading in the first quarter of 2011 benefited from actions taken at the end of the first quarter of 2010 to reduce loss making capacity at the Group's Gatwick base. In addition, profit comparisons were assisted by the effect of the Greenfield cost savings programme which began at the end of Q1 2010. The Q1 2011 operating result also benefited from the suspension of Shannon long haul winter season flying, which had been uneconomic.

However, these positive effects were more than offset by the substantial losses and disruption caused by the IMPACT cabin crew dispute at the start of this year as well as difficult demand conditions, particularly on leisure routes from Ireland.

The net effect of these factors was that Q1 2011 operating losses (before exceptional items) increased to €53.7m from €37.9m in 2010. Q1 2011 revenue was down 4.8%.

Compared to Q1 2011, trading conditions improved significantly in Q2 2011 as the airspace closures caused by the Icelandic volcano in 2010, did not recur. In addition, we continued to benefit from refinements to our yield management approach and also from the Greenfield programme. However, the settlement of the cabin crew industrial dispute was followed by the threat of industrial action by pilots which damaged long haul bookings in general, and high yielding business class bookings in particular.

We are offsetting weak Irish demand by focusing on better performing inbound markets in Northern Europe. We are also targeting a balance between inbound and outbound traffic on our route network and 55% of revenue is now sourced outside of Ireland. We have also actively managed our fleet in H1 2011. Fleet actions have included the sale of a surplus A330, exit of three older operating leased A321s, delivery of four new financed leased A320s and deferral and conversion of three A330s to three A350s for delivery no earlier than 2018. The Group is also targeting one A320 for sale later in 2011.

We gave guidance at the time of the 2010 preliminary results that we expected to incur up to €25m of IT costs in 2011 upgrading our passenger management system and our rostering and manpower planning software. At the time, we expected that the majority of this expenditure would be treated as an exceptional item.

Our assessment of the situation has changed following work in H1 2011. Positively, these implementations will be cheaper than we initially anticipated; although they will take longer to effect than we had hoped. On the downside, it has become clear that very substantial work was needed to improve our IT function and to put it in a position to handle these and other vital projects. It was necessary to buy in significant support at the start of the year to underpin the transition needed in IT and we have seen the value of this approach. For example, a new Sabre yield management system is now live and we are outsourcing and reinvesting in our data centre. Infrastructure projects to improve resilience, and connect our disparate systems together are well underway.

Apart from IT we have also been forced to incur significant consulting costs to support our cabin crew and pilot rostering negotiations. Modelling the impact of potential changes to work rules while protecting productivity is very complicated and we do not yet have the capability to do this work internally.

In total in H1 2011, the Group incurred approximately €9.5m in project costs, the majority of which comprised the IT and negotiation support exercises described above. The bulk of this spend occurred in the second quarter. We expect to incur a further €5.5m of similar costs in the second half of 2011, with such costs ceasing by the end of the year. This expenditure has not been classed as exceptional and is being treated as an overhead.

Strategic update

As previously announced, Aer Lingus has undertaken a detailed review to assess the merits of the Group joining a global airline alliance at the present time. Following this review, our conclusions are:

- The costs of joining an alliance outweigh the benefits over the short term and the impact of alliance membership on our cost base is inconsistent with Aer Lingus' ongoing focus on achieving lower operating costs. For this reason, Aer Lingus will not prioritise alliance membership over the short term unless the conditions and costs of alliance membership change significantly in the intervening period.
- Growth through bilateral agreements with selected partner airlines should be prioritised as the primary means to achieve profit improvement with minimised cost and risk.
- Aer Lingus will, however, re-visit the topic of alliance membership in 2012, particularly if a North Atlantic bilateral relationship using anti-trust immunity (i.e. i.e. the legally permissible full coordination between Aer Lingus and another airline on scheduling, pricing, revenue management, marketing and sales on selected routes) appears viable at that stage.

Aer Lingus is a valuable, profitable and cash generative business. In addition to substantial balance sheet strength, the Group owns significant assets which are not recognised in its financial statements, including an attractive slot portfolio at London Heathrow and Dublin airports. Aer Lingus has significant financial strength with gross cash of €919.4m as at 30 June 2011 and no general corporate debt as aircraft purchases have been funded through asset backed, finance leases. The Group has a modern, cost efficient fleet of Airbus aircraft which operate on profitable short haul and long haul routes. Aer Lingus is on course for a second consecutive year of profitability and continues to generate cash despite difficult trading conditions in some of our markets. Management are focused on continually improving the cost competitiveness of the Group and much progress has been achieved in the last two years in this area.

Analyst and institutional investor day
Aer Lingus will hold an analyst and institutional investor day on 28 September 2011 at the London Stock Exchange from morning till lunchtime. The event will include presentations from members of the Aer Lingus executive and senior management team.

Q2 financial review

Q2 2011 saw a substantial recovery in Aer Lingus' trading performance with several key business indicators showing a significant improvement. Short haul and long haul passengers in the quarter increased by 8.6% and 4.8% respectively compared to the prior year resulting in a total passenger increase of 8.3%. Total revenues increased by 14.0% and Aer Lingus generated an operating result of €25.9m in the quarter which represented a notable improvement over Q2 2010.

The Group's performance in Q2 2011 benefited from a later Easter period than in 2010 and was also supported by the absence of the airspace closures that impacted trading in Q2 2010. However, Aer Lingus' continuing disciplined approach to demand-led capacity management and strong average yield performance underpinned the quarterly result. In addition, staff costs decreased by 2.6%, and the Greenfield cost reduction plan continued to steadily improve the cost competitiveness of the business. These factors helped counteract the continuing difficulties in the demand environment which were exacerbated by the threatened pilot industrial action at the start of June which negatively affected passenger confidence and the long haul business in particular.

As a result of the above factors, Aer Lingus' profitability improved substantially in the second quarter of 2011 and the Group reported an operating profit, before net exceptional items, of €25.9m (2010: profit of €18.8m).

Overall passenger revenue increased by 14.1% in Q2 2011 compared to Q2 2010 (and compared to a decline of 5.6% in Q1 2011) due to an 8.3% increase in passenger numbers and a 6.6% increase in average yield per passenger. Capacity was 10.9% higher primarily due to the fact that there was no repeat of the volcanic ash disruption which closed Northern European airspace during Q2 2010. In addition, the Group re-focused capacity to better serve demand from inbound, time sensitive short haul markets in addition to schedule changes to the transatlantic route network.

Short haul passenger revenue increased by 17.1% to €215.3m in Q2 2011 compared to Q2 2010 (and compared to a 3.6% decline in Q1 2011). The average yield per passenger on short haul routes increased by 8.1% in Q2 2011 compared to Q2 2010, mainly due to improved yield management. In addition, yields were supported by active network management. Short haul passenger volumes increased by 8.6% (compared to a 11.6% decline in Q1 2010). Short haul capacity was 11.9% higher in Q2 2011 compared to Q2 2010 for the reasons outlined above. Short haul load factor in Q2 2011 declined by 2.3 points compared to Q2 2010 due to the continuing weakness on some leisure routes which was observed in Q1 2011. However, this was partly offset by stronger performances on other more time sensitive routes.

Long haul also performed quite well in Q2 2011 and transatlantic passenger revenue increased by 10.6% to €76.8m (compared to a 4.4% decrease in Q1 2011). The average yield on long haul routes increased by 5.9% while long haul passenger volumes increased by 4.8% (compared to a 13.7% decline in Q1 2011). Long haul capacity was up 8.8% on Q2 2010 due to an increased number of transatlantic flights during the period and the absence of the ash disruption which occurred in 2010. Long haul load factor in Q2 2011 decreased by 3.5 points versus Q2 2010. This decline was attributable to the threatened pilot industrial action at the start of June and increased competition on transatlantic routes. However, growth in the number of transfer passengers and in the occupancy of the business class cabin has helped drive the yield increase in the period.

Aer Lingus Regional services, operated by Aer Arann, and the Washington Dulles – Madrid extended code share service, operated in partnership with United Airlines, both continued to trade in line with management expectations.

Total ancillary revenue increased by 6.9% to €45.0m in Q2 2011 (2010: €42.1) as a result of the increase in passenger numbers carried. Ancillary revenue per passenger declined by 1.2% in Q2 2011 to €17.43 as compared to Q2 2010. This decline reflects a number of factors including a lower number of passengers paying for checked baggage (as observed in Q1 2011) and which has continued to be a factor in Q2 2011. Management are currently evaluating a range of retail revenue projects which will seek to provide customers with convenient travel options for which they would be willing to pay as well as an improved on-board retail proposition. Management believes that these projects will stabilise and increase unit ancillary revenue over time.

Operating costs in Q2 were 12.5% up on Q2 2010, driven by: a 16% increase in airport charges to €75.7m in Q2 2011 (2010: €65.3m) arising from an increase in passengers flown and increased charges at Dublin and London Heathrow airports in particular, a 55.6% increase in ground operations costs to €34.4m in Q2 2011 (2010: €22.1m) primarily due to IT and other transformation costs of €9.5m and the non-recurrence in 2011 of gains realised in 2010 on the settlement of foreign exchange currency swaps.

Fuel represented 23.8% of total costs in the quarter (2010: 26.7%). US$ denominated fuel costs in the quarter increased by 10.4% to US$110.9m (2010: US$100.5m) due to a 13.5% increase in block hours flown to 43,036 (2010: 37,927). However, the additional cost of this increased flying was offset by the positive impact on fuel costs of a weaker average US$ during Q2 2011. As a result, the euro denominated cost of fuel in Q2 2011 increased by only €0.2m (i.e. 0.3%) to €77.4m (2010: €77.2m). The average cost of fuel, including into plane fees, was $929/tonne (2010: $914/tonne).

Q2 2011 exceptional items included the release of €11.6m from the cash flow hedging reserve related to capital hedges previously associated with orders for three A330 aircraft which have now been deferred and converted to orders for three A350 aircraft to be delivered no earlier than 2018. The profit arose from the closure of the hedges which are now no longer needed. Exceptional items also include a credit of €3.2m resulting from a lower level of redundancies under the Greenfield programme than previously anticipated.

H1 financial review

The Group reported an operating loss, before net exceptional items, of €27.8m (2010: loss of €19.0m) for the first half of 2011. As noted above, trading during the first six months of 2011 was negatively affected by a challenging first quarter with profits recovering strongly in Q2 2011.

Passenger revenue

Passenger revenue increased by 5.6% to €544.1m in the period and would have been higher were it not for lost revenues of approximately €8m as a result of the IMPACT cabin crew dispute in January and February 2011. The net effect of the non-recurrence of ash cloud disruption and reduced capacity at Shannon and London Gatwick was that capacity remained flat at 8,869m available seat kilometres (ASKs) (2010: 8,808) and 42,000 less passengers were carried compared to the same period in 2010. Average yield per passenger increased by 8.4% and revenue per passenger (i.e. passenger yield plus ancillary revenue) also increased by 6.6% to €124.71. Total passenger load factor decreased by 2.2 points to 71.0% due to some continuing weakness on European leisure routes (reflecting underlying economic weakness) and increased competition on transatlantic routes. The Group has now implemented a new revenue management system which will improve demand forecasting and revenue optimisation abilities.

Short haul

Total short haul passengers carried over the first 6 months of 2011 decreased by 0.7% to 3,973,000. However average short haul yield increased by 9.1% or €7.26 to €87.47 (2010: €80.21).

Short haul capacity, measured by ASKs increased by 0.7% arising from the fact that there was no repeat of the closure of northern European airspace in H1 2011 compared with 2010 offset by reduced capacity at London Gatwick. Capacity utilisation, measured by revenue passenger kilometres (RPKs) decreased by 1.9% resulting in short haul load factor decreasing by 1.9 points to 70.3%. This decline reflects a number of factors including continuing weakness on certain leisure routes partly offset by strong performances on key time sensitive markets where Aer Lingus has focused on serving increasing passenger demand.

During the first half of 2011, three older A321 aircraft were retired from the short haul fleet and returned to their lessors and one A320 is being targeted for disposal later in the year. Four new A320 aircraft were acquired on finance leases. The Group also intends to introduce two leased A319 aircraft into the fleet in early 2012 to replace operating leased A320 aircraft exiting the fleet. The economics associated with the A319 aircraft type are appropriate for some of the lower demand routes within the Aer Lingus network and should drive further operating and cost efficiencies. Aer Lingus has no current plans to significantly change short haul capacity deployment in 2012.

Long haul

Aer Lingus implemented significant changes to its long haul network in late 2009 with the objective of restoring this important part of the Group's business to profitability. Total long haul passengers decreased by 3.2% to 390,000. However, average long haul yield increased substantially by 8.4% or €23.56 to €305.35 (2010: €281.79) in the first six months of 2011. This was due in part to higher business class occupancy.

There was no significant net movement in capacity compared with H1 2010, with ASKs remaining flat at 2.8m (2010: 2.8m). This reflects the non-recurrence of the ash cloud related airspace closures in H1 2011 offset by reduced capacity deployment in Shannon during the first six months of 2011. However, there were some changes to the Group's transatlantic schedule to and from Dublin. RPKs decreased by 3.2% resulting in long haul load factor decreasing by 2.9 points to 72.5%.

During the period one owned A330 aircraft was sold, realising a profit on disposal of €0.9m which has been recorded as an exceptional item.

Ancillary revenue

Total ancillary revenues decreased by 4.0% on 2010 to €77.5m. This decrease was the result of fewer passengers carried and reduced per passenger spend. Average spend decreased by 3.0% to €17.76 mainly because of changing passenger behaviour patterns, including a lower volume of checked baggage, in conjunction with the prevailing economic climate. The most significant ancillary revenue products continue to be in-flight sales revenue, baggage fees, online booking fees, seat selection fees and commissions.

Cargo

Aer Lingus' cargo business is a crucial component of the Group's business offering. Aer Lingus' strategy is to carry cargo on long haul routes and also on short haul routes where aircraft turnaround times permit. Total cargo revenue increased by 14.6% to €22.0m (2010: €19.2m) despite a 5.8% decrease in total tonnage compared with H1 2010. This volume decline reflected a continuing effect of the IMPACT cabin crew industrial action at the start of 2011. Short haul tonnage decreased by 21.9% to 3,370 tonnes; and long haul tonnage increased marginally by 0.4% to 11,227 tonnes. The increase in revenue was primarily driven by an increase in average yield and fuel surcharge revenue. Average cargo yield, excluding the fuel surcharge, increased by 10.5% to €0.97 per tonne. Revenue from the fuel surcharge increased by 39.6%.

Operating costs

Total operating costs, before net exceptional items, increased by 7.2% to €596.9m. This increase was primarily due to additional aircraft and crew hire-in costs arising from the IMPACT cabin crew dispute which affected operations in January and February 2011. The increase also reflected higher airport charges and as noted above, approximately €9.5m in non-recurring, project costs as well as the non-recurrence in 2011 of gains realised in 2010 on the settlement of foreign exchange currency swaps.

Staff costs (excluding the impact of business transformation charges reported within net exceptional items), which represented 21.4% of operating costs, decreased by 5.9% to €127.7m primarily as a result of a decline in headcount and the full period effect of Greenfield measures implemented in 2010. These measures included the flow through from the salary reduction as agreed as part of Greenfield and implemented at the end of Q1 2010.

Airport charges, which represented 21.5% of operating costs, increased by 9.2% to €128.5m (2010: €117.6m) despite a 1% decline in passenger volumes. This was due principally to increased charges levied at Dublin and London Heathrow airports. En-route charges increased by 7.5% to €28.9m (2010: €26.9m) due to an increased number of flights in the period compared to the same period in 2010 in view of the non-recurrence of the volcanic ash disruption.

Depreciation remained steady at €39.9m (2010: €39.6m). This reflects a number of movements including depreciation charges associated with four A320 aircraft purchased in H1 2011 offset by the effect of the disposal of an A330 aircraft. There was no change in the average fleet size across both periods.

Aircraft operating lease costs decreased by 11.7% to €22.7m (2010: €25.7m) due to the return of three leased A321 aircraft to their lessors during the period.

Maintenance costs increased by 2.6% to €24.3m (2010: €23.7m), primarily due to a 2.3% increase in block hours flown.

Distribution costs increased by 5.3% to €26.2m (2010: €24.9m) due to an increase in advertising and marketing spend and also to a small change in channel mix. The proportion of online sales declined by two percentage points offset by an increase in Global Distribution Systems ("GDS"). Although more expensive, GDS traffic tends to be higher yielding than online bookings.

Ground operation/other operating costs increased by 48.9% to €68.5m from €46.0m in H1 2010. The increase is primarily due to the incurring of aircraft and crew hire in costs and additional flight cancellation costs arising from the IMPACT cabin crew dispute in January and February 2011. As noted in the Business Review, Aer Lingus also incurred an estimated €9.5m of non-recurring project costs in H1 2011 associated with short term business improvement projects and union negotiations.

Fuel represented 21.7% of total costs in H1 2011 (2010: 23.7%). US$ denominated fuel costs in H1 2011 increased by 2.3% to US$181.4m (2010: US$177.4m) due to a 2.3% increase in block hours flown to 74,366 (2010: 72,680). However, the additional cost of this increased flying was offset by the positive impact on fuel costs of a weaker average US$ during the first six months of 2011. As a result, the euro denominated cost of fuel in H1 2011 decreased by €2.5m (1.9%) to €129.6m (2010: €132.1m). The average cost of fuel, including into plane fees was $887/tonne (2010: $860/tonne).

Other net gains/losses, which largely consist of gains from maturing currency contracts used to manage currency exposure reflected in other income statement captions, returned a net loss of €0.6m for the six months to 30 June 2011 compared to a net gain of €15.3m for the same period in 2010. This reflects an average hedged rate of US$1.43 in H1 2011 compared to an average hedged rate of US$1.47 in H1 2010.

Greenfield cost reduction programme
At the end of Q1 2011, we were concerned that the Greenfield programme would not be enough to protect future profitability. However, since then our outlook for 2011 has improved and we have decided that we do not now need to make significant changes to the programme for the time being provided there is no deterioration in our key markets or further spike in fuel costs. To date, the initiatives we have taken will give us savings with an annual value of approximately €80m by year end compared to the total Greenfield programme goal of €97m. For this reason we have reduced the amount provided in respect of Greenfield, leading to a release of €3.2m which has been reported within net exceptional items.

The most significant improvements that we have seen in H1 2011 primarily relate to fuel savings and procurement initiatives. While there may be another €3m to €4m of benefits from final delivery of initiatives currently underway, we are now arriving at the point where there are diminishing returns from "cost centre level" exercises.

The real challenge now is to address the seasonality in the business which is evident from the pattern of quarterly profitability. In this regard, we are considering a range of initiatives and are canvassing interest in cross seasonal aircraft leases.

In summary, we expect that we will achieve run rate savings of approximately €80m by the end of 2011, but full delivery of the Greenfield programme will carry to 2012.

Aer Lingus Regional and Washington Dulles – Madrid operation
Both Aer Lingus Regional services and the service between Washington and Madrid continue to trade in line with plan and are expected to continue to generate a positive contribution to the business in 2011. The Aer Lingus Regional franchise operation carried approximately 341,000 passengers in H1 2011 and is now an important and established part of our network.

Net exceptional items
H1 2011 net exceptional items included the release of €11.6m from the cash flow hedging reserve related to capital hedges previously associated with orders for three A330 aircraft which have now been deferred and converted to orders for three A350 aircraft to be delivered no earlier than 2018. The profit was from the closure of the hedges which are no longer needed. Exceptional items also include a credit of €3.2m as we now expect a lower level of redundancies under the Greenfield programme than previously anticipated.

Financing income and costs
Net finance expense for the period was €1.3m (2010: income €3.2m). Finance expense of €8.2m increased by €0.4m (4.9%) reflecting the draw down of finance leases relating to the acquisition of four A320 aircraft during the period. Finance income of €6.9m (2010: €11.0m) decreased by 37.3% reflecting the impact of lower interest rates.

Tax charge
There was a tax credit for the period of €1.1m (2010: €2.4m) arising from an increase in deferred tax assets due to losses incurred during the period.

Cash flow, gross cash and debt
The Group generated free cashflow in H1 2011 of €15.5m. Significant cashflow movements in the first six months of 2011 included working capital inflows of €146.1m (reflecting the seasonal impact of customers booking and paying for their flights in the first half of the year in advance of travel in the peak summer months), net capital expenditure of €88.6m and a payment of €30.2m in relation to the Group's obligations in respect of the 2008 "Leave and Return" scheme.

Gross cash (deposits and cash and cash equivalents) increased by €34.4m during the period to €919.4m (31 December 2010: €885.0m). In addition to free cashflow discussed above, the Group obtained new finance lease financing of €96.0m for new aircraft, made lease repayments totalling €40.9m and paid net interest of €1.6m. Currency movements of €34.6m adversely impacted the value of the Group's cash balances.

Gross debt increased by €26.6m in H1 2011. As noted above, finance lease obligations at 30 June 2011 increased by €96.0m and totalled €561.8m (31 December 2010: €535.2m). This increase was partially reduced by debt repayments of €41.5m and currency movements amounting to €31.4m.

Fuel and currency hedging
To achieve greater certainty on costs the Group manages its exposure to fluctuations in the prices of fuel and foreign currency through hedging. At 30 June 2011, the Group's estimated fuel requirements for the remainder of 2011 and for 2012 were hedged as follows:

	Q3 2011	Q4 2011	Full year 2012
Estimated burn ('000 tonnes)	126.0	106.0	442.9
% hedged	80%	65%	27%
Average hedged price per tonne of jet fuel	US$868	US$898	$941

We note that the outlook for fuel prices has recently moderated. Aer Lingus will continue its structured fuel hedging programme which we believe provides the business with optimal protection against fuel price volatility. The Group has a relatively small un-hedged fuel exposure for the remainder of 2011 but the exposure to fuel price volatility increases substantially in 2012.

The Group's major foreign currency exposure is to the US dollar. At 30 June 2011, the Group's forward purchases of US dollars comprised: 69% of the estimated trading requirements for the six months to 31 December 2011 at an average rate of €1=$1.44 and 62% of the estimated trading requirements for 2012 at an average rate of €1=$1.43.

Significant contracts
During H1 2011, the Group exercised an option to convert orders for the purchase of three new A330 aircraft which were due for delivery in 2013 and 2014, to an order for the purchase of three new A350 aircraft which are scheduled for delivery no earlier than 2018.

2010 exceptional item
In March 2011, Aer Lingus paid a total amount of €30.2m in respect of PAYE, PRSI, interest, penalties and related costs arising from payments to 715 staff under a restructuring programme implemented in 2009.

During H1 2011, the Aer Lingus Board of Directors ("the Board") instructed management to engage external advisors to undertake a review of the manner in which redundancies were implemented under this programme. This review has now been completed and its findings and recommendations have been submitted to and accepted by the Board.

The Board is satisfied that the recommendations arising out of the review have either been fully implemented or are substantially in the course of implementation.

Principal risks and uncertainties
Please see note 24 to the financial statements for a description of the principal risks and uncertainties to which the Group will be exposed in the second half of 2011. This includes a description of pension risk.

Outlook
As previously noted, we are pleased with the booking profile for the remainder of 2011 and we are positive about our trading prospects for the rest of 2011. We now expect revenue growth in the second half to be broadly similar to that in the first six months. As a result, we are more positive about the profitability of the business in 2011 than we were at the start of the year.

Appendix

Statistics	Three months ended 30 June			Six months ended 30 June		
	2011	2010	Change	**2011**	2010	Change
Passengers carried (‘000) *						
Short haul	**2,341**	2,155	8.6%	**3,973**	4,002	(0.7%)
Long haul	**241**	230	4.8%	**390**	403	(3.2%)
Total	**2,582**	2,385	8.3%	**4,363**	4,405	(1.0%)
Revenue passenger kilometres (RPKs) (m) *						
Short haul	**2,604**	2,398	8.6%	**4,238**	4,320	(1.9%)
Long haul	**1,260**	1,212	4.0%	**2,059**	2,126	(3.2%)
Total	**3,864**	3,610	7.0%	**6,297**	6,446	(2.3%)
Available seat kilometres (ASKs) (m)						
Short haul	**3,553**	3,174	11.9%	**6,029**	5,988	0.7%
Long haul	**1,665**	1,531	8.8%	**2,840**	2,820	0.7%
Total	**5,218**	4,705	10.9%	**8,869**	8,808	0.7%
Passenger load factor (%) (flown RPKs per ASKs)*						
Short haul	**73.3%**	75.6%	(2.3pts)	**70.3%**	72.2%	(1.9pts)
Long haul	**75.7%**	79.2%	(3.5pts)	**72.5%**	75.4%	(2.9pts)
Total	**74.1%**	76.7%	(2.6pts)	**71.0%**	73.2%	(2.2pts)
Average yield (€)						
Short haul	**91.98**	85.09	8.1%	**87.47**	80.21	9.1%
Long haul	**318.80**	301.14	5.9%	**305.35**	281.79	8.4%
Total	**113.13**	106.17	6.6%	**106.94**	98.66	8.4%
Aer Lingus Regional passengers carried (‘000)	**195**	103	89.3%	**341**	108	215.7%

* Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid extended codeshare service operated in partnership with United Airlines. These figures differ from those published in Aer Lingus’ monthly traffic statistics which are based on BOOKED passenger numbers.

Independent review report to Aer Lingus Group plc

Introduction
We have been engaged by the company to review the condensed set of financial statements in the first half results report for the six months ended 30 June 2011, which comprises: condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows, and related notes

We have read the other information contained in the first half results report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities
The first half results report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the first half results report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this first half results report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the first half results report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the first half results report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

PricewaterhouseCoopers
Chartered Accountants
Dublin, Ireland

30 August 2011

Condensed consolidated interim income statement (unaudited)

Six months ended 30 June

	Note	2011	2010
		€'000	€'000
Revenue	*7*	**569,074**	537,946
Operating expenses			
Staff costs (excluding exceptional items)		**127,660**	135,714
Depreciation and amortisation		**39,897**	39,629
Aircraft operating lease costs		**22,721**	25,719
Fuel costs		**129,620**	132,127
Maintenance expenses		**24,271**	23,661
Airport charges		**128,490**	117,626
En-route charges		**28,888**	26,873
Distribution charges		**26,218**	24,904
Ground operations, catering and other operating costs		**68,524**	46,026
Other (gains)/losses – net (excluding exceptional items)	*8*	**622**	(15,294)
		596,911	556,985
Operating loss before net exceptional items		**(27,837)**	(19,039)
Net exceptional items	*9*	**14,935**	(5,029)
Operating loss after net exceptional items		**(12,902)**	(24,068)
Finance income	*10*	**6,924**	11,057
Finance expense	*10*	**(8,197)**	(7,815)
Loss before taxation		**(14,175)**	(20,826)
Income tax credit		**1,070**	2,357
Loss for the period		**(13,105)**	(18,469)
Loss attributable to:			
- equity holders of the parent		**(13,105)**	(18,469)
Loss per share for loss attributable to the equity holders of the parent (expressed in € cent per share)			
- basic and diluted	*11*	(2.5c)	(3.5c)

The notes on pages 16 to 22 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of comprehensive income (unaudited)

Six months ended 30 June

	Note	2011	2010
		€'000	€'000
Loss for the period		**(13,105)**	(18,469)
Other comprehensive income/(loss)			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve		**(64)**	(80)
- Deferred tax on amortisation of available-for-sale reserve		**8**	1
Cash flow hedges			
- Fair value (losses)/gains		**(11,600)**	92,766
- Deferred tax on fair value losses/(gains)		**1,450**	(11,596)
- Transfer to fuel costs		**(7,342)**	11,227
- Deferred tax on transfer to fuel costs		**918**	(1,403)
- Transfer to income statement (net exceptional items)	9	**(11,595)**	-
- Deferred tax on transfer to income statement		**1,449**	-
- Transfer to property, plant and equipment		**(4,771)**	-
- Deferred tax on transfer to fixed assets		**596**	-
- Transfer to other (gains)/losses - net	8	**(12,214)**	(5,934)
- Deferred tax on transfer to other gains/(losses) - net		**1,527**	742
Other comprehensive (loss)/income for the period		**(41,638)**	85,723
Total comprehensive (loss)/income for the period		**(54,743)**	67,254
Total comprehensive (loss)/income attributable to:			
- equity holders of the parent		**(54,743)**	67,254

The notes on pages 16 to 22 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of financial position (unaudited)

	Note	**30 June 2011**	31 December 2010	30 June 2010
		€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant and equipment	*19*	**813,714**	760,356	795,039
Intangible assets	*19*	**4,672**	4,388	4,617
Loans and receivables	*15*	**37,522**	39,790	71,943
Derivative financial instruments	*14*	**2,709**	8,487	34,829
Deferred tax asset		**20,154**	13,537	-
Deposits	*15*	**125,050**	128,359	102,773
		1,003,821	954,917	1,009,201
Current assets				
Inventories		**1,036**	1,280	1,036
Derivative financial instruments	*14*	**27,631**	47,371	87,518
Trade and other receivables	*12*	**78,458**	82,454	94,936
Current income tax receivables		**-**	34	18
Loans and receivables	*15*	**-**	-	20,459
Deposits	*15*	**499,022**	420,885	495,111
Cash and cash equivalents	*15, 21*	**263,237**	305,999	326,798
		869,384	858,023	1,025,876
Total assets		**1,873,205**	1,812,940	2,035,077
EQUITY				
Called-up share capital	*17*	**26,702**	26,702	26,702
Share premium		**510,605**	510,605	510,605
Capital conversion reserve fund		**5,048**	5,048	5,048
Capital redemption reserve fund		**343,796**	343,796	343,796
Other reserves		**15,108**	55,347	92,534
Retained earnings		**(152,195)**	(139,090)	(206,766)
Total equity		**749,064**	802,408	771,919
LIABILITIES				
Non-current liabilities				
Finance lease obligations	*18*	**524,316**	479,658	549,282
Derivative financial instruments	*14*	**625**	26	8,440
Deferred tax liability		**-**	-	5,170
Provisions for other liabilities and charges	*16*	**77,628**	80,012	107,418
		602,569	559,696	670,310
Current liabilities				
Trade and other payables	*13*	**441,963**	299,117	465,672
Bank overdrafts	*15, 21*	**5,380**	9,988	7,394
Finance lease obligations	*18*	**37,449**	55,573	58,869
Derivative financial instruments	*14*	**13,513**	14,620	10,743
Provisions for other liabilities and charges	*16*	**23,267**	71,538	50,170
		521,572	450,836	592,848
Total liabilities		**1,124,141**	1,010,532	1,263,158
Total equity and liabilities		**1,873,205**	1,812,940	2,035,077

The notes on pages 16 to 22 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity (unaudited)

	Note	Called-up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Cash flow hedging reserve	Available-for-sale reserve	Treasury shares	Share based payment reserve	Retained earnings	Total equity
		€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2010		26,702	510,605	5,048	343,796	11,705	1,223	(6,326)	41	(188,297)	704,497
Comprehensive income/(loss) for the period ended 30 June 2010		-	-	-	-	85,802	(79)	-	-	(18,469)	67,254
Share based payment reserve		-	-	-	-	-	-	-	192	-	192
Deferred tax impact		-	-	-	-	-	-	-	(24)	-	(24)
Balance at 30 June 2010		26,702	510,605	5,048	343,796	97,507	1,144	(6,326)	209	(206,766)	771,919
Balance at 1 January 2011		**26,702**	**510,605**	**5,048**	**343,796**	**60,351**	**510**	**(6,326)**	**812**	**(139,090)**	**802,408**
Comprehensive income/(loss) for the period ended 30 June 2011		**-**	**-**	**-**	**-**	**(41,582)**	**(56)**	**-**	**-**	**(13,105)**	**(54,743)**
Share based payment reserve		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,599**	**-**	**1,599**
Deferred tax impact		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200)**	**-**	**(200)**
Balance at 30 June 2011		**26,702**	**510,605**	**5,048**	**343,796**	**18,769**	**454**	**(6,326)**	**2,211**	**(152,195)**	**749,064**

The notes on pages 16 to 22 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows (unaudited)

Six months ended 30 June

	Note	**2011**	2010
		€'000	€'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	*20*	**98,568**	99,769
Cash flows from investing activities			
Purchases of property, plant and equipment (net of lease finance raised)		**(10,226)**	(7,666)
Proceeds from matured forward foreign exchange positions hedging capital expenditure		**8,153**	19,864
Purchases of intangible assets		**(1,819)**	(1,056)
Proceeds from sale of property, plant & equipment		**11,306**	-
(Increase)/decrease in deposits		**(100,396)**	49,887
Interest received		**3,497**	6,225
Net cash (used in)/generated from investing activities		**(89,485)**	67,254
Cash flows from financing activities			
Repayments of finance lease obligations		**(40,857)**	(17,643)
Interest paid		**(5,051)**	(3,259)
Net cash used in financing activities		**(45,908)**	(20,902)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(36,825)**	146,121
Cash, cash equivalents and bank overdrafts at 1 January		**296,011**	170,475
Exchange gains on cash, cash equivalents and bank overdrafts		**(1,329)**	2,808
Cash, cash equivalents and bank overdrafts at 30 June	*21*	**257,857**	319,404

The notes on pages 16 to 22 form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements (unaudited)

1 General information

Aer Lingus Group plc (the "Company") is a public limited liability company incorporated and domiciled in Ireland. The Company has its primary listing on the Irish Stock Exchange and a standard listing on the London Stock Exchange.

The condensed consolidated interim financial statements, presented for the six-month period ended 30 June 2011, comprise the Company and its subsidiaries (together the "Group").

2 Basis of preparation

The condensed consolidated interim financial statements, for the six-month period ended 30 June 2011, have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union ("IAS 34"). They do not include all of the information required for full annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and on which the independent auditors' report was unqualified.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act 1986. The statutory accounts for the year ended 31 December 2010 were approved by the Board of Directors on 25 March 2011, contained an unqualified audit report and are due to be filed with the Companies Registration Office by 30 September 2011.

The Audit Committee, upon delegation of authority by the Board of Directors, approved the condensed consolidated interim financial statements for the six month period ended 30 June 2011 on 30 August 2011.

3 Going Concern

The Group meets its day-to-day working capital requirements through its cash and deposit balances. The Group's current projections including its five year plan, show that the Group should have adequate resources to continue in operational existence for the foreseeable future. Accordingly after making enquiries, the Directors consider that it remains appropriate that the Group continue to adopt the going concern basis is the preparation of the consolidated interim financial statements.

4 Significant accounting policies and estimates

The preparation of condensed, consolidated interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. In addition, the Group reclassified certain prior year amounts to conform to the current year presentation.

In preparing these condensed, consolidated interim financial statements, the accounting policies adopted, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the preparation of the annual consolidated financial statements for the year ended 31 December 2010.

5 Seasonality

Due to the seasonal nature of the airline industry, higher revenues and operating profits are usually expected in the second half of the year than in the first six months. Cash balances are also generally higher in the first half of the year as customers book and pay for their flights in advance of travel in the peak summer months. Higher volumes for the period June to August are mainly attributable to the increased demand for air travel during the peak holiday season.

In light of the impact of seasonality on the Group's statement of financial position in particular, the Group has presented, as permitted by IAS 34 as an additional comparative, the statement of financial position as at 30 June 2010.

6 Segment information

Based on the way the Group manages the network and the manner in which resource allocation decisions are made, the Group considers that its operating segments comprise its routes on which passengers and cargo are transported. Having assessed the aggregation criteria contained in IFRS 8 "Operating Segments" and considering how the Group manages its business and allocates resources, the Group has determined that it has one reportable segment. In particular the Group is managed as a single business unit that provides air transportation for passengers and cargo, which allows the Group to benefit from an integrated revenue pricing and route network. The Group's flight equipment forms one fleet, which is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker evaluates flight profitability data, which considers aircraft type and route economics. The chief operating decision maker assesses operating segment performance based on a measure of adjusted operating profit before net exceptional items. This measure excludes the effects of non-recurring expenditure and revenue from the operating segment, such as restructuring costs and provision remeasurements, when the remeasurements are the result of an isolated, non-recurring event. These are aggregated in the 'miscellaneous group level adjustments' caption below. Interest income and expense are not included in the segmental results reviewed by the chief operating decisions maker. Total segment assets exclude deferred tax, loans and receivables, deposits and cash and cash equivalents, all of which are managed on a central basis. These are part of the reconciliation to total statement of financial position assets.

Segment revenue of €569.1m (2010: €537.9m) is wholly derived from external customers.

	Six months ended 30 June	
	2011	2010
	€'000	€'000
Adjusted loss before net exceptional items for the reportable segment	**(27,502)**	(28,044)
Miscellaneous group level adjustments	**(335)**	9,005
Net exceptional items	**14,935**	(5,029)
Operating loss after net exceptional items	**(12,902)**	(24,068)
Finance income	**6,924**	11,057
Finance expense	**(8,197)**	(7,815)
Loss before income tax	**(14,175)**	(20,826)

The reportable segment's assets are reconciled to total assets as follows:

	As at 30 June 2011	As at 31 December 2010
	€'000	€'000
Total segment assets	**928,220**	904,370
Deferred tax asset	**20,154**	13,537
Loans and receivables	**37,522**	39,790
Deposits	**624,072**	549,244
Cash and cash equivalents	**263,237**	305,999
Total assets per statement of financial position	**1,873,205**	1,812,940

7 Revenue

	Six months ended 30 June	
	2011	2010
	€'000	€'000
Passenger revenue	**466,608**	434,596
Ancillary revenue	**77,518**	80,678
Cargo revenue	**21,982**	19,207
Other revenue	**2,966**	3,465
	569,074	537,946

8 Other (gains)/losses – net

	Six months ended 30 June	
	2011	2010
	€'000	€'000
Fair value losses/(gains) on cross-currency interest rate swap	**837**	(2,204)
Realised gains on forward foreign currency contracts	**(12,214)**	(5,934)
Net foreign exchange losses/(gains) on operating activities	**11,999**	(7,156)
	622	(15,294)

9 Net exceptional items

Exceptional items comprise the following: credits/(charges)	Six months ended 30 June	
	2011	2010
	€'000	€'000
Northern European airspace closure costs (a)	**39**	(10,000)
Restructuring (b)	**3,216**	4,971
Other (c)	**(769)**	-
Profit on disposal of property, plant and equipment (d)	**854**	-
Reclassification of cash flow hedging reserve (e)	**11,595**	-
	14,935	(5,029)

(a) Remeasurement of the provision in respect of estimated cost of compensating passengers for costs incurred as a result of the closure of northern European airspace following the eruption of a volcano in Eyjafjallajoekull, Iceland.
(b) Remeasurement of the provision for restructuring costs associated with Early Retirement, Voluntary Severance, Greenfield and Migration Schemes, arising from lower than expected headcount reductions and severance cost.
(c) Finalisation of the provision in respect of the 2008 "Leave and Return" scheme.
(d) Profit on disposal of A330 aircraft.
(e) Release of amounts from cash flow hedging reserve related to capital foreign exchange hedges originally associated with planned purchase of three A330 aircraft and exercise in Q1 2011, of an option to convert those orders to three A350 aircraft. Due to significant uncertainty at 30 June 2011 regarding the Group's plans to take these aircraft, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the amounts previously held in reserves in respect of those forecast cash flows have been released from cash flow hedging reserve and due to the significance of the amounts to the interim results, have been categorised as exceptional.

10 Finance income and expense

	Six months ended 30 June	
	2011	2010
	€'000	€'000
Finance income		
Interest on cash, cash equivalents and deposits	**6,047**	9,037
Interest income on loans and receivables	**813**	1,940
Amortisation of available-for-sale reserve	**64**	80
	6,924	11,057
Finance expense		
Interest expense on finance lease obligations	**8,197**	7,815
	8,197	7,815

11 Basic and diluted loss per share

There were no dilutive potential ordinary shares in existence during the six-month periods to 30 June 2011 and 30 June 2010. Therefore, there was no difference, in both periods, between basic and diluted loss per share.

12 Trade and other receivables

	As at 30 June 2011	As at 31 December 2010
	€'000	€'000
Trade receivables	**38,773**	32,910
Other amounts receivable	**29,902**	41,169
Prepayments and accrued income	**5,788**	6,125
Value Added Tax	**3,995**	2,250
	78,458	82,454

13 Trade and other payables

	As at 30 June 2011	As at 31 December 2010
	€'000	€'000
Trade payables	**61,417**	51,880
Accruals and deferred income	**51,873**	56,830
Ticket sales in advance	**236,020**	120,652
Employment related taxes	**8,816**	7,891
Other amounts payable	**83,837**	61,864
	441,963	299,117

In the six months to 30 June 2011 there was a significant increase in *ticket sales in advance* due to the seasonal impact of passengers purchasing tickets in advance of travel in the summer months. The fares collected for future travel are recorded as a liability until the passenger has flown at which time they are recognised as revenue. The taxes and charges collected on these tickets are also recorded as a liability, in *other amounts payable*, until the passenger has flown at which time they becomes payable to the relevant authorities.

14 Derivative financial instruments

Derivative financial instruments represent the fair value of open forward foreign exchange contracts and fuel price swaps which the Group is a party to at the reporting date. The fair value of these open positions is calculated by reference to the forward foreign exchange rates and forward fuel prices at the reporting date. In the six months to 30 June 2011the fair value of these open positions decreased significantly due to the weakening of the US dollar and the maturity during the period of fuel price swaps which were in the money at 31 December 2010.

Deferred tax is provided on the gains/losses, arising from cash flow hedging positions, which are recognised in reserves. The significant decrease in the fair value of the derivative financial instruments in the period resulted in a deferred tax asset at the reporting date (31 December 2010: deferred tax liability).

15 Total cash and cash equivalents

	As at 30 June 2011	As at 31 December 2010
Non-current		
Loans and receivables	**37,522**	39,790
Deposits	**125,050**	128,359
	162,572	168,149
Current		
Loans and receivables	**-**	-
Deposits	**499,022**	420,885
Cash and cash equivalents	**263,237**	305,999
Bank overdrafts	**(5,380)**	(9,988)
	756,879	716,896
Total cash and cash equivalents	**919,451**	885,045

At 30 June 2011 the Group held deposits of €32.1m (31 December 2010: €49.3m), which were not available for immediate use by the Group.

16 Provisions for other liabilities and charges

In the six-month period to 30 June 2011, the group utilised €37.6m of its business repositioning provision, including a payment to the Revenue in final settlement of the Leave & Return matter. Included in the total utilisation are gain share payments totalling €6.9m made to staff on the achievement of agreed annual 2010 Greenfield targets. During the period the Group also released €5.8m of its Greenfield provision due to lower than expected planned headcount reductions. This amount has been reported within net exceptional items. The provision for business repositioning remaining at 30 June 2011 was €32.2 (31 Dec 2010: €75.6m).

17 Called-up share capital

There was no change in the called-up share capital of the Company in the six-month period to 30 June 2011.

The total number of ordinary shares of €0.05 in issue at 30 June 2011 was 534,040,090 (31 December 2010: 534,040,090) of which 4,446,658 (31 December 2010: 4,446,658) were classified as treasury shares.

18 Finance lease obligations

During the six-month period ended 30 June 2011, the Group entered into finance lease arrangements for the purchase of 4 Airbus A320 aircraft, resulting in an increase in borrowings of €96.0m. A final repayment of €32.4m was made in respect of an A320 aircraft held under finance lease during the period. During the six-month period ended 30 June 2010 the Group entered into a finance lease arrangement for the purchase of an Airbus A330 aircraft, resulting in an increase in borrowings of €58.5m.

19 Property, plant and equipment and intangible assets

During the six-month period ended 30 June 2011, the Group acquired flight equipment, property and ground equipments with a cost of €106.4m (six-month period ended 30 June 2010: €43.9m), and disposed of flight equipment with an original cost of €48.6m.

20 Cash generated from/(used in) operations

	Six months ended 30 June	
	2011	2010
	€'000	€'000
Loss before tax	**(14,175)**	(20,826)
Adjustments for:		
- Depreciation and amortisation	**42,278**	41,425
- Net movements in provisions for other liabilities and charges	**(49,116)**	(18,304)
- Net fair value losses on derivative financial instruments	**(40)**	(567)
- Share options and awards expense	**1,599**	192
- Finance income	**(6,924)**	(11,057)
- Finance expense	**8,197**	7,815
- Net exceptional items	**(14,935)**	5,029
- Other (gains)/losses – net	**(14,449)**	(1,482)
Changes in working capital		
- Inventories	**244**	(220)
- Trade and other receivables	**3,574**	(21,259)
- Trade and other payables	**142,315**	119,023
Cash generated from/(used in) operations	**98,568**	99,769

21 Cash, cash equivalents and bank overdrafts

Cash, cash equivalents and bank overdrafts, for the purposes of the condensed consolidated interim statement of cash flows include the following:

	As at 30 June 2011	As at 30 June 2010
	€'000	€'000
Cash and cash equivalents	**263,237**	326,798
Bank overdrafts	**(5,380)**	(7,394)
	257,857	319,404

22 Related party transactions

There were no related party transactions during the reporting period that materially affected the performance of the Group or the financial position at the reporting date.

23 Events after the reporting period

There have been no significant events occurring after the reporting period, up to and including the date of approval of the financial statements by the board of directors.

24 Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed are unchanged from those disclosed in the "Principal risks and uncertainties" section of the annual consolidated financial statement for the year ended 31 December 2010. They include economic risks, relationships and alliances with other airlines, staff productivity and industrial relations, our ability to recover cost increases, the impact of ongoing organisation change programmes, operational disruption, fleet management and the impact of efforts by third parties to improve efficiency and consistency of operations at Dublin airport.

The principal risks and uncertainties to which the Group will be exposed in the second half of the financial year are set out below:

- **Economy**: The continuing recession in the Group's primary markets, in particular the Group's core Irish market has negatively impacted and may continue to negatively impact the Group's business. Any further deterioration in the Irish economy, particularly events which may damage consumer confidence or disposable income, may have a significant adverse effect on the business. In addition, a strengthening of the euro against US dollar and sterling could make Ireland a less attractive destination for inbound passengers.
- **Closure of airspace**: A sustained closure of airspace could have a significant financial impact on the Group in terms of lost revenue and the costs of passenger disruption.
- **Change management**: The Group remains committed to its cost reduction programme, which is targeting specific annualised cost savings. If the Group fails to successfully implement the cost reduction programme there is a risk that the Group will have an uncompetitive cost structure and that 2011 and 2012 profits would fall short of the Board's expectations. Industrial action or the threat of industrial action that may arise in response to the continued implementation of the Group's cost reduction programme could have a negative impact on the Group's financial and operating performance. In this context, the Group

continues to negotiate with unions representing its pilots. If these discussions were to prove unsuccessful, any subsequent industrial action would prove very damaging to the Group's business.

- **Taxes and charges**: The increasing charges being imposed by the Dublin Airport Authority could lead to a reduction in fare yield and/or negatively impact the Group's financial performance.
- **People**: The Group's future performance is dependent upon a strong and effective management team. If the Group fails to attract or retain suitable qualified employees, this could negatively impact business performance.
- **Pension:** The trust deeds governing the Irish Airlines Superannuation Scheme and the Irish Airlines (Pilots) Superannuation Scheme (collectively the "Irish Pensions Schemes") to which the Group contributes, state that no changes to those contribution rates are possible without the Group's consent. Management remains of the opinion that the liability of the Group to contribute to the Irish Pension Schemes is fixed at their respective, current contribution rates and, accordingly that the Group has neither a constructive nor a legal obligation to increase its rate of contributions to the Irish schemes, even if those schemes were found to have insufficient funds to pay all employees the benefits relating to their current and past employment service.

  At 31 December 2010, the Irish Airlines Superannuation Scheme (IASS) was estimated to have an actuarial deficit of approximately €400m on the statutory minimum funding standard basis. The IASS is currently undergoing its triennial actuarial valuation. This valuation is expected to confirm that the scheme has a significant deficit. In the absence of additional funding commitments from Aer Lingus and the other sponsoring employers, the Trustees will be required to take measures to improve the scheme's financial position. If such measures result in a reduction in member benefits, it is likely that there will be an adverse effect on employee relations. There is therefore a risk that the Company could become involved in industrial disputes with its employees, which would be significantly detrimental to the operations of the airline and its financial performance. It is also possible that the Company's position that it has no responsibility for the deficit in the scheme will be subject to legal challenge from individual employees or deferred pensioners and lengthy litigation could ensue. If, contrary to the firm legal advice that the Company has received, a court were to find against the Company in any such litigation, significant or very significant loss could arise.
- **Competition:** The Group faces strong competition in the markets in which it operates and if the Group fails to respond effectively to that competition, market share and financial performance could be impacted.
- **Safety**: Failure to operate safely or to adequately respond to an emergency safety incident could adversely impact the Group's operation and financial performance.

25 Responsibility statement

We confirm that to the best of our knowledge:

- the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011, comprising the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows and the related notes thereto have been prepared in accordance with IAS 34 and give a true and fair view of the assets, liabilities, financial position and profit/loss of the Group;

- this half-yearly results report includes a fair review of the development and performance of the Group and of the important events that have occurred during the first six months of 2011 and, their impact on the condensed consolidated interim financial statements ;

- information regarding related party transactions and changes thereto has been provided in Note 22 to the condensed consolidated interim financial statements.

- a description of the principal risks and uncertainties associated with the expected development of the Group in the remaining part of the year has been provided in Note 24 to the condensed consolidated interim financial statements.

Andrew Macfarlane	**Christoph Mueller**
DIRECTOR	DIRECTOR

Approved by the Board of Directors on 30 August 2011