Aer Lingus Group plc

ISE: EIL1 LSE: AERL

H1 2014 operating result improvement of 40% despite €10m effect of industrial action

Dublin and London, 30 July 2014: Aer Lingus Group plc ("Aer Lingus", the "Group") today announces its results for the three and six month periods ended 30 June 2014 (the "first half results report").

Financial highlights

€'million unless otherwise stated	Q2 2014	Q2 2013	Change[1]	H1 2014	H1 2013	Change[1]
Passengers - mainline operations ('000s)	2,782	2,665	4.4%	4,615	4,570	1.0%
Average fare revenue per passenger (€)	131.27	123.28	6.5%	122.01	117.80	3.6%
Average fare revenue per seat (€)	101.49	92.14	10.1%	89.18	84.56	5.5%
Revenue	437.8	398.2	9.9%	697.2	657.9	6.0%
Operating costs (excluding net exceptional items)	399.1	369.1	8.1%	707.1	674.3	4.9%
Operating profit / (loss) before net exceptional items	38.7	29.1	32.9%	(9.9)	(16.4)	39.6%
Free cash flow [2]	Not applicable			191.8	151.9	26.3%
Balance sheet	**30 June 2014**	**31 Dec 2013**	**Change[1]**	**30 June 2014**	**30 June 2013**	**Change[1]**
Gross cash	1,034.4	897.4	15.3%	1,034.4	1,015.8	1.8%
Gross debt	(448.7)	(477.6)	6.1%	(448.7)	(513.7)	12.7%
Net cash	585.7	419.8	39.5%	585.7	502.1	16.7%

Note: the condensed consolidated interim financial statements are presented in euro rounded to the nearest thousand. Therefore, discrepancies in the tables between totals and the sums of the amounts listed may occur due to such rounding

[1] Sign convention: favourable / (adverse)

[2] Free cash flow, a non-IFRS measure, is explained below

Q2 2014 highlights

- Highest Q2 operating result since 2010 despite €10 million negative effect of industrial action
- Year-on-year revenue growth of 9.9%; operating result improved by 32.9% in the quarter; negative effects of industrial action have been balanced by the positive timing effect of Easter in the quarter
- Long haul continues to perform very strongly; long haul passengers up 24.1%; load factor up 2.6% points; average fare revenue per seat up 8.8%; newly launched services performing ahead of expectations. Market has easily absorbed additional Aer Lingus long haul capacity deployed in the quarter
- Creditable short haul performance in tough environment; short haul revenue up 1.8% in the quarter; short haul business responding robustly to challenges in some markets and negative effects of industrial action
- Underlying business demonstrates resilience in face of disruption caused by industrial action; management action to re-build forward revenue bookings is proving successful although there is more still to do

H1 2014

- Strong revenue growth of 6.0% in first six months of 2014 despite disruption caused by industrial action
- Significant 39.6% improvement in H1 2014 operating result compared to prior year
- Average fare revenue per seat and passenger per seat up 5.5% and 3.6% respectively
- Aer Lingus Regional passengers up 25.8% in H1 2014
- 16.7% growth in net cash in the first six months of 2014 and 26.3% increase in free cashflow despite industrial action
- Dividend of €21.3 million paid in May 2014

Outlook

- Since last providing guidance in June 2014, good progress has been achieved to recover bookings following the actual and threatened industrial disruptions in the first six months of 2014 although there was insufficient time for these efforts to have an effect on June bookings and there is more to do in the late summer months. Based on recent trading trends, management once again expect that full year 2014 operating profit (before net exceptional items) will be at least in line with 2013 (i.e. €61.1 million).

Other

- Collaborative and constructive progress on implementation of IASS pension solution although complex steps are still required and some issues remain to be addressed by the parties
- Aer Lingus remain engaged with cabin crew under the auspices of the Labour Court to address rostering and related disputes

Christoph Mueller, Aer Lingus' CEO, commented*: "We are delighted to announce that Aer Lingus' successful business model has delivered a 40% improved operating result and a 26% increase in free cash flow in H1 2014 despite the negative effects of lost revenue caused by the cabin crew industrial action.*

We sold the 25.3% additional long haul capacity deployed in Q2 2014 with 29.2% more revenue passenger kilometres; 5.3% higher long haul yields and a 2.6 percentage point increase in long haul load factor. Aer Lingus' transatlantic offering represents a real low cost long haul service. We continue to attract more and more passengers in the North Atlantic transfer market from both European and US locations, most of them through our online booking portal. Improved connectivity via Dublin now allows us to significantly extend our addressable markets into continental Europe whilst also enabling us to grow further in secondary UK markets from already solid market positions.

Short haul was predominantly impacted by cabin crew industrial action in the first half of 2014 and short haul passenger traffic on Aer Lingus mainline services was down 0.7%. Due to swift and efficient countermeasures by our revenue management team, we were able to partly recover our forward bookings in late summer. However, we are still carrying an estimated negative booking gap of €10 million into the second half of 2014 with some limited potential for further recovery.

Aer Lingus Regional franchise services, operated by Stobart Air, carried 26% more Aer Lingus passengers in the first half of 2014 than prior year and continue to contribute strongly to a positive UK and long haul performance. When mainline and franchise services are viewed together, total Aer Lingus short haul passengers increased by 2.1% in the first six months of 2014. Nevertheless, short haul markets remain highly competitive.

It is paramount that Aer Lingus continues to drive further efficiencies and enhance our passenger experience. The CORE programme, launched in Q1 2014, will be implemented in two phases. CORE staff related savings need now to be synchronised with the staff cost stabilisation measures which were set out in the 2013 Labour Court recommendations relating to the IASS and which will be subject to a ballot by trade union members. Other CORE elements, predominantly revenue and product initiatives; further back office process optimization and the development of seasonal work time models will continue without delay.

The resolution of the IASS pension issue remains challenging. We are satisfied that positive progress is being achieved in the background with several IASS solution project groups, including data and communications working groups, meeting on a regular basis and working in a constructive and collaborative manner. However, after four and a half years of discussions, the parties involved need to realise that the current proposal is the only viable solution available and that there is simply no realistic alternative. Failure to implement the current proposal could significantly diminish the post retirement incomes of past and current Aer Lingus employees. Aer Lingus strongly believes that all parties should now work together to implement the proposed solution, rather than selectively questioning elements of the solution.

During the past two years, we have invested selectively in increased transatlantic flying, contract flying on UK domestic routes and a regional aircraft leasing joint venture, all of which are delivering high returns on our investments.

Based on recent trading trends we once again expect that full year 2014 operating profit (before net exceptional items) will be at least in line with 2013 (i.e. €61.1 million)."

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A webcast presentation and conference call for institutional shareholders and analysts will be held on 30 July 2014 at 09:00 (Dublin Time). This will be available on a live webcast at www.aerlingus.com.

The Directors of Aer Lingus accept responsibility for the information contained in this Announcement. To the best of the knowledge and belief of the Directors of Aer Lingus (who have taken all reasonable care to ensure that such is the case), the information contained in this Announcement is in accordance with the facts and does not omit anything likely to affect the import of such information.

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 apply 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		
	2014	**2013**	**Change [1]**	**2014**	**2013**	**Change [1]**
	€m	**€m**		**€m**	**€m**	
Revenue						
- Passenger revenue						
- Fare revenue	**365.1**	328.6	11.1%	**563.0**	538.4	4.6%
- Retail revenue	**51.7**	50.6	2.2%	**90.4**	87.1	3.8%
- Total	***416.8***	*379.2*	9.9%	***653.4***	*625.5*	4.5%
- Cargo revenue	**11.0**	10.8	1.9%	**21.6**	22.3	(3.1%)
- Other revenue	**9.9**	8.2	20.7%	**22.1**	10.0	121%
- Total	**437.8**	398.2	9.9%	**697.2**	657.9	6.0%
Operating Costs before net exceptional items						
- Fuel costs	**(103.5)**	(103.3)	(0.2%)	**(170.3)**	(175.6)	3.0%
- Staff costs	**(75.1)**	(73.2)	(2.6%)	**(143.1)**	(137.9)	(3.8%)
- Airport & en-route charges	**(107.3)**	(100.9)	(6.3%)	**(178.4)**	(172.6)	(3.4%)
- Other operating costs	**(113.2)**	(91.7)	(23.6%)	**(215.3)**	(188.2)	(14.3%)
- Total	**(399.1)**	(369.1)	(8.1%)	**(707.1)**	(674.3)	(4.9%)
Operating profit/(loss) before net exceptional items (EBIT)	**38.7**	29.1	32.9%	**(9.9)**	(16.4)	39.6%
Net exceptional items	**(1.4)**	(4.5)	68.7%	**(2.5)**	(9.3)	73.1%
Operating profit/(loss) after net exceptional items (EBIT)	**37.2**	24.6	51.2%	**(12.3)**	(25.7)	52.1%
Profit/(loss) before tax	**36.3**	22.9	59.0%	**(14.1)**	(28.2)	50.0%
EBITDAR	**79.0**	60.6	30.4%	**64.9**	47.0	38.1%
Fare revenue per seat (€)[2]	**101.49**	92.14	10.1%	**89.18**	84.56	5.5%
Retail revenue per passenger (€) [2]	**18.59**	19.00	(2.2%)	**19.58**	19.06	2.7%
Passengers carried ('000) [2]	**2,782**	2,665	4.4%	**4,615**	4,570	1.0%
Available seat kilometres (ASKs) [2]	**5,883**	5,372	9.5%	**9,551**	9,067	5.3%
Passenger load factor [2]	**80.1%**	78.4%	1.7 ppts	**76.1%**	75.6%	0.6 pts

[1] Sign convention: favourable/ (adverse)
[2] Based on flown passengers and excluding Aer Lingus Regional Services operated by Stobart Air (formerly Aer Arann) and the "wet lease" agreement with Virgin Atlantic Airways Limited and Novair ("contract flying business")

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

(€'million)	**Three months ended**		**Six months ended**	
	30 June 2014	**30 June 2013**	**30 June 2014**	**30 June 2013**
Period average	1.37	1.29	1.37	1.31
Period end rate	1.36	1.31	1.36	1.31

EBITDAR calculation

EBITDAR (€'million)	**Q2 2014**	**Q2 2013**	**H1 2014**	**H1 2013**
Operating profit/(loss)before net exceptional items	38.7	29.1	(9.9)	(16.4)
<u>Add back</u>				
Depreciation and amortisation	23.2	20.0	44.9	41.3
Aircraft operating lease costs	17.1	11.5	29.9	22.1
EBITDAR	**79.0**	**60.6**	**64.9**	**47.0**

Free cashflow calculation

Free cashflow (€' million)	**H1 2014**	**H1 2013**
Cashflow generated from operating activities (before FX on deposits)	218.4	173.1
Net capital expenditure	(28.6)	(22.6)
Net interest received	2.0	1.4
Free cashflow	**191.8**	**151.9**

Statistics	Three months ended 30 June			Six months ended 30 June		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Passengers carried ('000)[1]						
Short haul	**2,401**	2,358	1.8%	**4,053**	4,082	(0.7%)
Long haul	**381**	307	24.1%	**561**	488	15.0%
Total	**2,782**	2,665	4.4%	**4,615**	4,570	1.0%
Revenue passenger kilometres (RPKs) (m)[1]						
Short haul	**2,633**	2,604	1.1%	**4,237**	4,281	(1.0%)
Long haul	**2,081**	1,610	29.2%	**3,036**	2,574	18.0%
Total	**4,713**	4,214	11.8%	**7,273**	6,854	6.1%
Available seat kilometres (ASKs) (m) [1]						
Short haul	**3,445**	3,425	0.6%	**5,775**	5,814	(0.7%)
Long haul	**2,439**	1,947	25.3%	**3,776**	3,253	16.1%
Total	**5,883**	5,372	9.5%	**9,551**	9,067	5.3%
Passenger load factor (%) (flown RPKs per ASKs)[1]						
			% point			% point
Short haul	**76.4%**	76.0%	0.4	**73.4%**	73.6%	(0.3)
Long haul	**85.3%**	82.7%	2.6	**80.4%**	79.1%	1.3
Total	**80.1%**	78.4%	1.7	**76.1%**	75.6%	0.6
Average fare per passenger (€)[1]						
Short haul	**94.30**	94.28	0.2%	**90.10**	91.09	(1.1%)
Long haul	**364.24**	346.03	5.3%	**352.42**	341.09	3.3%
Total	**131.27**	123.28	6.5%	**122.01**	117.80	3.6%
Fare revenue per seat (€)[1]						
Short haul	**71.82**	69.60	3.2%	**65.05**	64.58	0.6%
Long haul	**310.72**	285.65	8.8%	**282.88**	269.91	4.8%
Total	**101.49**	92.14	10.1%	**89.18**	84.56	5.5%
Aer Lingus Regional passengers carried ('000)	**364**	269	35.3%	**620**	493	25.8%
Total Aer Lingus traffic statistics including Aer Lingus Regional						
Passengers carried ('000)	**3,146**	2,933	7.3%	**5,235**	5,063	3.4%

[1] Based on flown passengers and excluding Aer Lingus Regional Services operated by Stobart Air (formerly Aer Arann) and the "wet lease" agreement with Virgin Atlantic Airways Limited ("contract flying business")

2014 first half business review

Aer Lingus delivered a strong performance in the first six months of 2014 despite the adverse effect of operational disruptions and strong competition, particularly in certain short haul markets. Overall passenger volumes increased by 1.0% and load factor is up by 0.6% percentage points even with capacity growth in the period of 5.3%. Total revenues are up 6.0% with fare revenue per seat increasing by 5.5%.

The first half of the year is seasonally loss making for Aer Lingus. However, the Group's H1 2014 operating loss before net exceptional items of €9.9 million represents a 39.6% improvement over prior year. This first half operating result would have approached breakeven in the absence of strike action in the first six months of 2014. Even with this strike action, Aer Lingus' Q2 2014 operating profit of €38.7 million is its best reported second quarter result for at least five years.

There are a number of factors which drove Aer Lingus' H1 2014 performance and which were not a feature of H1 2013:

- **Transatlantic revenues** in the first six months of 2014 were positively impacted by the commencement of new direct services from Dublin to Toronto and San Francisco. These new services added €21.9 million to long haul revenues. In addition, revenue from Aer Lingus' existing long haul network, enhanced by additional services to Boston and New York operated by three newly damp leased Boeing 757 aircraft, increased by €9.3 million year-on-year.
- **Favourable price and FX movements** were a factor in H1 2014 performance and acted to reduce fuel costs by €14.3 million in the first six months compared to H1 2013. This reduction was partly offset by the additional fuel required for increased long haul flying activity in H1 2014 leading to a net reduction in year-on-year fuel costs of €5.3 million.
- The H1 2014 result reflects a full six months of **UK domestic contract flying** business with Virgin (which commenced on 31 March 2013) and a full winter flying on behalf of Novair which commenced in Q4 2013. Together, these two contracts drove an increase in "Other revenue" of €11.3 million. In addition, €2.1 million of start-up costs associated with the Virgin contract were recognised in the operating result for H1 2013 and did not recur in H1 2014.
- **Staff costs** increased by €5.3 million in the first six months of 2014 compared to H1 2013. Staff costs increased by approximately 3.8% year-on-year as a result of recruitment of 143 additional FTEs to support higher levels of effective mainline operations (long haul Airbus 330 and Boeing 757 flying) as well as the 2014 effect of the annual staff increment from September 2013 and paid in line with Irish Labour Court recommendations on the IASS. These increases offset €2.5 million of staff cost reductions attributable to exits under the 2013 voluntary severance programme.
- **Depreciation** increased by €3.6 million year-on-year. This increase is primarily driven by depreciation of IT enhancements delivered in 2013 and to date in 2014 as well as cabin fit-out of the damp leased Boeing 757 aircraft.
- **Ground operations, catering and other operating costs** increased by €8.9 million year-on-year. This reflects several items including increased catering and other direct operating costs associated with expanded transatlantic flying.
- The Group reports a €1.1 million **hedging loss** in the first six months of 2014 compared to a €2.5 million gain in H1 2013. This year-on-year change from gain to loss is attributable to losses on maturing currency contracts as well as losses on re-translation of foreign currency balances primarily reflecting the negative differential between the H1 2014 average US$ hedged rate (of US$1.33) vs. average US$ spot rate (of US$1.37) compared to a positive differential in H1 2013 (i.e. average US$ hedged rate of US$1.37 vs. average spot rate of US$1.31).

Industrial action and revenue recovery

Trading in the first six months of 2014 was damaged by industrial action. While the strength of underlying trading and the robustness of Aer Lingus' business model are evident in the significant improvement in year-on-year performance, the Group's H1 2014 results would have been significantly better in the absence of industrial action.

- In March 2014, Aer Lingus received notice of industrial action in relation to IASS funding matters in advance of the St. Patrick's weekend. This threatened action was withdrawn only at a very late stage and resulted in numerous forced flight cancellations and aircraft hire-ins. At the time, management estimated that this caused Aer Lingus' Q1 2014 operating result to be approximately €3 million lower than Q1 2013.
- Cabin crew engaged in a one day strike on 30 May 2014 related to rostering issues. At the time, Aer Lingus reported that it had experienced positive trading in April with short haul, long haul and retail all performing strongly in the month. This performance enabled the Group to maintain its then guidance that 2014 operating profits would be in line with the prior year, despite the adverse effects of the cabin crew strike. This guidance was maintained in a trading update issued on 20 May 2014.
- The strike of 30 May 2014 was followed by threats that there would be further cabin crew work stoppages on 16 and 18 June 2014. These strikes ultimately did not proceed due to the intervention by the Irish Labour Court but nonetheless caused significant damage to Aer Lingus' revenue performance and forward booking profile for several months over the remainder of 2014. For this reason, Aer Lingus issued a revised trading update on 12 June 2014 to the effect that the Group's 2014 operating profits (before net exceptional items) would be 10% to 20% lower than 2013.

Aer Lingus has engaged with cabin crew under the auspices of the Labour Court to attempt to resolve the rostering and related issues under dispute and this work is continuing.

It is difficult to estimate the financial effect of cabin crew strike action on trading results as such estimates rely on assessments of revenue foregone and the effectiveness of revenue recovery efforts. Our assessment is:

- The threat of action that affected St Patrick's weekend had a negative €3 million effect on the Q1 2014 operating result.
- The cabin crew industrial action in Q2 2014 reduced revenues by approximately €10 million; and
- The Q2 2014 cabin crew industrial action also resulted in bookings at the end of June 2014 being some €10 million lower than expected. Management are working to recover this shortfall with partial success so far.

A principal effect of the industrial action was to damage the confidence of short haul leisure travellers in the Aer Lingus brand, causing these passengers to book elsewhere for their air travel in the summer months. Management undertook significant promotional activity to re-build bookings. While these actions have been more successful than management initially expected, the volume recovery achieved has come at the expense of some yield. Management are continuing to re-build the booking profile for the summer months with September 2014 a particular focus at present.

Full year 2014 outlook
Management believe that trading has recovered sufficiently to upgrade the full year guidance previously issued on 12 June 2014 when operating profit was expected to be 10% to 20% lower than 2013. Taking into account the success of Aer Lingus' efforts to re-build bookings and with the benefit of greater clarity over likely trading trends in the key July to September peak period, management now expect that full year 2014, before net exceptional items, will be at least in line with 2013 (i.e. €61.1 million).

Cost Optimisation and Revenue Excellence ("CORE") programme
Aer Lingus' CORE programme launched in late February 2014 and has three primary elements:

(i) Revenue excellence;
(ii) Cost and business optimisation (with a total cost reduction run rate target of €30 million by the end of 2015); and
(iii) Further improvements in staff engagement, training, flexibility and productivity.

Aer Lingus has made solid progress with regard to the "Revenue Excellence" area since the programme was launched.

- **New London Heathrow terminal:** Aer Lingus has completed its move to the new Terminal 2 in London Heathrow. This move will have numerous benefits for Aer Lingus customers including a more pleasant airport environment, the ability to seamlessly transfer within the same terminal to connections with several of the Group's partner airlines (including United Airlines and Air Canada) and an estimated 50% reduction in gate to kerb time.
- **Load factor & yield initiatives:** On 9 July 2014, Aer Lingus commenced the roll out of improved revenue management and inventory infrastructure, increasing the number of booking classes available to the Group's revenue managers. Applied to flights from October 2014, this infrastructure is expected to deliver annual benefits of €2.5 million in its first year of operation rising to €10 million at maturity.

In addition, substantial efforts are under-way on other projects intended to grow future revenues and management expect to have delivered the following over the coming months:

- **Redefining the guest experience:** on 18 July 2014, Aer Lingus announced the launch of a new transatlantic business class service which will be available to business class guests from 2015. This includes completely re-designed lie-flat seats/beds with service attuned to time of day (including quiet night time services) and a range of food, entertainment, lounge and amenity upgrades. This is the first of a number of guest experience upgrades that will be rolled out across the Aer Lingus network during 2014 and 2015.
- **Re-launch of *aerlingus.com*** with improvements both to the website user experience as well as the underlying transactional technology
- **Re-launch of the Aer Lingus mobile app** with improved mobile options and capabilities for Aer Lingus passengers

Aer Lingus remains committed to achieving €30 million run rate savings by the end of 2015. Progress on the cost reduction, staff flexibility and staff engagement elements of CORE has been delayed by industrial action in May and June 2014 and limited financial benefits are expected in 2014. The Group will not be seeking to implement further salary reductions under CORE but instead will focus on achieving annual working time efficiencies and, to the extent possible, consensual and voluntary labour savings. Management's top priority for the second half of 2014 will be the implementation of the IASS solution and to put pension arrangements for Aer Lingus staff on a sustainable footing. In this context, it is likely that most CORE related labour savings will follow the IASS solution implementation to avoid over-loading the industrial relations and pensions agenda.

A key part of the cost reduction, staff flexibility and productivity elements of CORE is the establishment of an internal dispute resolution mechanism. Aer Lingus previously recognised the need to improve the current industrial relations environment in the Group. To that end, Aer Lingus is engaging positively with trade union leadership on the establishment of an internal dispute resolution mechanism. This mechanism has also been recommended by the Labour Court in relation to the recent cabin crew rostering dispute and is being established against the backdrop of the recent Expert Panel report on the IASS. The purpose of the proposed internal dispute resolution mechanism is to address day-to-day employee relations matters; to mitigate the adverse effects related to potential future staff disputes and to protect future operational stability. Discussions are continuing with the objective of formally establishing the internal dispute resolution mechanism in the coming weeks.

The successful implementation of the IASS solution as well as the establishment of a functioning internal dispute resolution mechanism will be key enablers to addressing the labour cost savings elements of the CORE programme.

Pension matters
The Expert Panel, which was established in March 2014 to investigate how a final resolution of the industrial relations issues relating to the IASS could be achieved, delivered its report on 16 June 2014. Aer Lingus issued a detailed response to this report on 27 June 2014. The main points of the Expert Panel report and Aer Lingus' response are:

- The Expert Panel proposed a number of variations to the Labour Court recommendations which previously issued in January and May 2013.
- The aggregate effect of these variations and further changes relating to deferred IASS members is to recommend an increase in the total once-off payment to be made by Aer Lingus from €140.0 million to €190.7 million in addition to implementation costs. The staff cost stabilisation measures suggested by the Labour Court were left unchanged.
- Aer Lingus reluctantly accepts the recommendations of the Expert Panel as the only solution that is capable of acceptance by all the parties following the inability of the parties to implement the recommendations issued by the Labour Court.
- Any implementation of the Labour Court Recommendations, as varied by the Expert Panel Report (including the payment of the proposed once-off Aer Lingus employer contribution of €190.7 million), is dependent on a series of further complex steps and cannot be guaranteed to be completed by the end of 2014 although implementation by the end of 2014 remains our objective.
- One of the critical implementation steps is the requirement that each of the sponsoring employers (i.e. Aer Lingus, Dublin Airport Authority ("DAA") and Shannon Airport Authority ("SAA")) enter into separate agreements with the trade unions representing their employees. In the event that such separate agreements are not entered into by all of the employers with the trade unions representing their employees, then there is a significant risk that the current proposal will fail, potentially leading to a significantly worse pension outcome for all IASS members. Aer Lingus is disappointed to note media reports on 23 and 24 July 2014 that Siptu's pension committee in DAA has rejected the Expert Panel Report recommendations relating to DAA.

Since the publication of the Expert Panel report, Aer Lingus has commenced a phase of intensive engagement with the relevant parties with the objective of implementing the combined Labour Court Recommendations and Expert Panel Report on as timely basis as possible. Notwithstanding potential setbacks such as the rejection by the Siptu pension committee in DAA noted above and related media coverage, positive progress is still being achieved in the background with several IASS solution project groups, including data and communications working groups, meeting on a regular basis and working in a constructive and collaborative manner.

Assuming satisfactory progress in what is an extremely complex process; Aer Lingus intends to put the proposed solution to shareholders at an Extraordinary General Meeting ("EGM") which the Group is targeting to occur in Q4 2014 although this timeline cannot be guaranteed. Further details of the benefits of the proposed solution, including the benefit to the Group of staff cost stabilisation measures, will be outlined in the circular to shareholders which will issue in advance of the EGM.

Since the publication of the Expert Panel report, Aer Lingus has sought feedback from a number of the Group's largest institutional shareholders to understand institutions' views on the proposed solution. Aer Lingus has taken careful note of comments received. Aer Lingus recognises that shareholder willingness to support the Expert Panel recommendations will be influenced by the industrial relations climate in the business; the likely cost of any payment linked to the separate Irish Airlines (Pilots) Superannuation Scheme ("the Pilots' Pension Scheme") (see comments below) and confidence that the proposed once-off contribution to be made by Aer Lingus will achieve a final resolution to the IASS pension matter.

Aer Lingus Limited is aware that certain parties have threatened proceedings against the company on matters related to the IASS. However these proceedings have not been issued and will be strenuously defended.

Aer Lingus Limited is separately engaged in a process of discussion with parties affected by the funding position in the Pilots' Pension Scheme. These discussions were being conducted through the forum of a pilots' pay tribunal but will now involve direct discussions between the parties. It is possible that the convening of an EGM to seek Aer Lingus shareholder approval in relation to the IASS Labour Court Recommendations, as varied by the Expert Panel report could be further complicated by the separate process and discussions required in relation to the Pilots' Pension Scheme.

Please see note 16 to the financial statements for disclosures relating to pension matters.

Board and Management team

On 18 July 2014, Aer Lingus announced that it has been agreed between the Group and Mr. Christoph Mueller, it's CEO, that Mr. Mueller will step down as CEO and director in May 2015. Mr. Mueller was appointed to the Group five years ago in July 2009 as CEO and has served as an executive director since September 2009. The Board of Aer Lingus will now commence a process to select and appoint a new CEO and executive director.

On 10 July 2014, Aer Lingus announced the appointments with effect from 1 September 2014, of Mr. Bernard Bot and Mr. Federico Balzola as Chief Financial Officer and Chief People and Change Officer, respectively. Mr. Bot has also been nominated to the Aer Lingus Board of Directors.

UK Competition Commission ("UK CC") Review

On 28 August 2013, the UK CC (whose functions have been transferred to the Competition and Markets Authority "CMA") issued its final report concluding its investigation into Ryanair's minority shareholding in Aer Lingus. Following a detailed investigation, the UK CC concluded that Ryanair's shareholding is anti-competitive and that it must sell down its 29.81% stake to 5%. The UK CC's final report also requires that:

- Following divestiture, Ryanair may not re-acquire shares in Aer Lingus unless the European Commission grants clearance for an acquisition of control of Aer Lingus by Ryanair under the EU Merger Regulation; and
- A divestiture trustee will be appointed to oversee the process of sale of Ryanair's shareholding in Aer Lingus, taking the divestiture process out of Ryanair's hands.

The UK CC specifically determined in its report that the order requiring Ryanair to sell down its shareholding to 5% need not await the outcome of Ryanair's appeal to the European General Court of the prohibition by the European Commission of its third takeover offer for Aer Lingus in February 2013. Ryanair appealed the findings of the UK CC's final report to the Competition Appeals Tribunal ("CAT") on a number of grounds. This appeal was rejected by the CAT on 7 March 2014. This decision represents the latest in a series of decisions adverse to Ryanair in its attempts to prevent the UK competition authorities reviewing its minority shareholding in Aer Lingus.

Ryanair has obtained permission to appeal the decision of the CAT to the UK Court of Appeal and this appeal is likely to be heard before the end of 2014.

Fleet update

Discussions with Airbus regarding Aer Lingus' A350-XWB long haul fleet order have substantially concluded with just some final matters relating to manufacturer communicated delivery delays to be agreed. Aer Lingus notes Airbus's recently announced intention to produce the A330neo long haul aircraft. Aer Lingus will study this aircraft's capabilities and its potential suitability for the Group's long haul requirements and future plans.

Q2 2014 financial review

Aer Lingus delivered a strong performance in Q2 2014, reporting an operating profit, before net exceptional items, of €38.7 million, which represents a 32.9% improvement on prior year (Q2 2013: €29.1 million) driven by a 11.1% (or €36.5 million) increase in passenger fare revenue supported by robust short haul performance and successful deployment of additional transatlantic capacity. Approximately €8 million of the increase in passenger fare revenue reflects the timing of Easter which occurred in Q2 2013 compared to Q1 in 2013.

Q2 2014 passenger fare revenue (€'million)	Q2 2014	Q2 2013	Y-O-Y Movement
Long haul fare revenue	138.7	106.2	30.6%
Short haul fare revenue	226.4	222.4	1.8%
Total fare revenue	**365.1**	**328.6**	**11.1%**

Passenger fare revenue in Q2 2014 increased by 11.1% on prior year driven by a 4.4% increase in passenger numbers and a 6.5% increase in fare revenue per passenger. Performance was supported by a relatively stronger April in comparative terms (even considering the timing of Easter) and the successful launch of new San Francisco and Toronto routes. These positive improvements were offset by the impact of the industrial action in May and June 2014 which resulted in flight re-bookings and other re-scheduling costs.

Operating costs in Q2 2014 rose 8.1% to €399.1 million (Q2: 2013: €369.1 million). This increase was mainly related to higher activity in the quarter relative to prior year and is reflected in increased fuel, aircraft hire, additional staff and higher airport charges. The volume related increase in fuel costs was partly offset by a favourable FX movement with the average US$ to EUR FX of 1.37 in Q2 2014 compared with 1.29 in Q2 2013. The average fuel cost per metric tonne for Q2 2014 (excluding into-plane fees) decreased by 2.8% to US$978 (Q2 2013: US$1,006).

H1 2014 financial review
(Note: all KPIs and statistics presented below relate to Aer Lingus mainline only and do not include Aer Lingus Regional operations or contract flying activities)

The Group reported an operating loss, before net exceptional items, of €9.9 million for the first half of 2014 representing a 39.6% improvement year-on year (2013: loss of €16.4 million).

Irish economic context
While challenges remain, the Irish macroeconomic environment is showing some signs of improvement:

- Irish GDP increased by 2.7%, in volume terms, in Q1 2014 compared with Q4 2013 (source: CSO).
- Dublin Airport, Aer Lingus' main hub and the largest airport on the island of Ireland, experienced several successive months of increased passenger volume growth in 2014 and Dublin Airport passenger volumes are up 7% in the six months to June 2014 compared to same period in 2013 (source: www.dublinairport.com).

Passenger revenue

Overall passenger revenue	H1 2014	H1 2013	Y-O-Y Movement
Passenger fare revenue (€ million)	563.0	538.4	4.6%
Passenger numbers ('000s)	4,615	4,570	1.0%
ASKs (millions)	9,551	9,067	5.3%
Load factor	76.1%	75.6%	0.6 ppts
Fare revenue per seat (€)	89.18	84.56	5.5%
Fare revenue per ASK (cent)	5.90	5.94	(0.7%)

Year-on-year passenger revenue increased by 4.6% while passenger numbers increasing by 1.0% in the context of overall capacity growth of 5.3%. Load factor increased by 0.6 percentage points and fare revenue per seat increased by 5.5% relative to H1 2013.

Short haul revenue performance

Short haul performance	H1 2014	H1 2013	Y-O-Y Movement
Short haul passenger fare revenue (€ million)	365.2	371.8	(1.8%)
Short haul passenger numbers ('000s)	4,053	4,082	(0.7%)
ASKs (millions)	5,775	5,814	(0.7%)
Load factor	73.4%	73.6%	(0.2) ppts
Fare revenue per seat (€)	65.05	64.66	0.6%
Fare revenue per ASK (cent)	6.32	6.39	(1.1%)
Short haul average sector length excluding charter (kilometres)	1,029	1,012	1.7%

Short haul capacity fell by a net 0.7 percentage points reflecting planned adjustments to the deployment of capacity to enable Aer Lingus to protect margins in the context of competitive dynamics in some short haul markets as well as intentional cancellations on 20 May related to cabin crew strike action on that date. Capacity reductions were partially offset by new summer routes from Dublin to Pula and Hanover and Shannon to Malaga.

In the circumstances, the Group is pleased with Aer Lingus' short haul performance in H1 2014 and the continuing ability of this business to respond to challenges in its market environment. Short haul yield per seat increased by 0.6% compared to H1 2013; passenger volumes were down by only 0.7% and short haul revenues were down by only 1.8%. Management believe that these results represent a creditable performance against the background of three sets of actual or threatened strike action and ongoing intense price competition.

The Aer Lingus regional franchise, operated by Stobart Air, continued to perform strongly in the first six months of 2014 with a 25.8% increase in the number of passengers using the franchise service. While some of this increase reflects former Aer Lingus mainline routes now operated by the franchise, the number of passengers travelling on short haul flights with an Aer Lingus code has increased significantly in H1 2014 compared to prior year.

In September 2013, management commented on more intense than usual competition in Aer Lingus' key mainline short haul markets. At the time, management noticed a change in the short haul yield environment with heavily discounted fares evident across the European market. While competition has remained robust over the intervening period, the short haul pricing environment has more recently normalised although keen pricing remains evident on the sun routes in particular.

Industrial action in H1 2014 had a greater proportionate effect on short haul performance than other parts of Aer Lingus' business. Notwithstanding this, Aer Lingus has achieved a significant revenue recovery since the strike threatened for 16 and 18 June 2014 was deferred. This recovery has varied across Aer Lingus' short haul network. Time sensitive routes have recovered relatively quickly driven by the quality of the Group's schedule and route network (i.e. central airports with flight times optimised for frequent and daily travel) and the continuing positive effects of Aer Lingus intra-network transfer traffic. Here the Group has seen increasing volumes of European short haul passengers transferring onto Aer Lingus long haul services enhanced by the extended range of destinations offered by interline and codeshare partners. The challenge of re-building volumes on leisure routes has been greater with, as noted above, the higher level of price competition remaining a factor on those routes as well as lingering customer confidence issues following the disruptive effects of the cabin crew strike action.

Aer Lingus' main competitor and Europe's lowest unit cost operator, Ryanair, is seeking to re-orient its passenger proposition and market positioning. It remains too early to assess what effect Ryanair's efforts will have on Aer Lingus' short haul business. However, Aer Lingus has maintained its share of Irish airport traffic in the first half of 2014:

Market share	H1 2014	H1 2013	H1 2012
Aer Lingus market share of Dublin, Cork and Shannon airport traffic (including Aer Lingus Regional)	45%	44%	44%

Several of the features which Ryanair is introducing have been part of the Aer Lingus "value carrier" proposition for several years and in that respect, Ryanair is seeking to copy selected elements of Aer Lingus' successful service offering. With this in mind, Aer Lingus is continuing to enhance and evolve its passenger experience (see earlier comments related to the CORE programme) so that Aer Lingus can continue to successfully differentiate itself from its competitors, while also working to improve its cost competitiveness.

Long haul revenue performance

Long haul performance	H1 2014	H1 2013	Y-O-Y Movement
Long haul passenger fare revenue (€ million)	197.9	166.6	18.8%
Long haul passenger numbers ('000s)	561	488	15.0%
ASKs (millions)	3,776	3,253	16.1%
Load factor	80.4%	79.1%	1.3 ppts
Fare revenue per seat (€)	282.88	269.91	4.8%
Fare revenue per ASK (cent)	5.24	5.12	2.3%
Long haul average sector length (kilometres)	5,399	5,271	2.4%

Aer Lingus' attractively priced long haul model continued to perform very positively in H1 2014. The Group's long haul business benefits from lower unit costs and more favourable geographical positioning than many of our long haul peers. The Group's new routes to San Francisco and Toronto launched successfully in April 2014 and are performing ahead of internal expectations. Existing direct services to Boston, New York, Chicago and Orlando also continue to perform strongly. Long haul revenue and passengers are up by 18.8% and 15.0% respectively compared to H1 2013. Long haul unit revenue is also up year-on-year with both yield per seat and yield per passenger up 4.8% and 3.3%, respectively compared to prior year. These results build upon successive years of positive long haul performance for Aer Lingus and are particularly impressive in the context of weak US$ rates in H1 2014 compared to H1 2013 which would have impacted US originating passenger demand relative to prior year.

Year-on-year long haul capacity increased by 16.1% through the addition of two new daily direct services launched in April 2014 from Dublin to San Francisco and Toronto in addition to frequencies from Shannon to Boston and New York (facilitated by the deployment of three damp leased Boeing 757 aircraft and an existing A330 aircraft). Long haul load factor increased by 1.3 percentage points year-on-year despite increased capacity.

H1 2014 long haul performance is underpinned by Aer Lingus' network approach with increasing levels of passengers connecting both to and from own and partner airline services on both sides of the North Atlantic.

Aer Lingus' business class cabin continues to perform strongly and to positively contribute to long haul revenue performance. In H1 2014, Aer Lingus achieved a business class load factor of 69.9%, up from 65.2% in H1 2013.

Aer Lingus' share of Irish transatlantic traffic for the first six months of 2014 has remained broadly stable despite the addition of 16.1% additional capacity in the period.

Market share	H1 2014	H1 2013	H1 2012
Aer Lingus market share of Irish transatlantic traffic	53%	54%	54%

The following origin and destination sales %'s applied in H1 2014:

	North American beyond traffic share	Transatlantic gateway traffic share	European behind traffic share
Estimated % of Aer Lingus origin and destination sales in H1 2014	20%	50%	30%

Long haul performance for H1 2014 contrasts favourably with Aer Lingus' peers' reported experience in the same period. Aer Lingus notes recent revised profit guidance issued by certain leading carriers and the Group is aware of concerns expressed both by its peers and sector commentators regarding recent long haul yield softness and capacity discipline in transatlantic markets.

Management believe that Aer Lingus long haul performance reflects a number of important differentiating factors:

- The Aer Lingus brand continues to resonate strongly in the selected transatlantic markets that the Group serves;
- Aer Lingus' lower relative unit cost position enables the Group to price competitively;
- Demand-led capacity discipline remains Aer Lingus' key philosophy in new route launches;
- The custom and border pre-clearance provided by Dublin Airport is a compelling differentiating factor; and
- Connectivity in both the US and Dublin.

Aer Lingus marketing efforts have highlighted the connectivity options that the Group offers on both sides of the North Atlantic through its extensive network of partner airlines and own short haul network. This approach continues to deliver benefits. In H1 2014, approximately 66% of the Group's total transatlantic bookings were sourced from the US market (H1 2013: 65%). In addition, approximately 56% of total ticket sales were generated outside Ireland (H1 2013: 48%).

A fundamental feature of the current Aer Lingus business model continues to be the development of partnerships with other carriers. Interline revenue and passenger volumes continued to grow, increasing by 11.5% and 9.7%, respectively.

Interline trends	H1 2014	H1 2013	*Growth %*	H1 2012	*Growth %*
Interline revenues (€m)	39.6	35.5	*11.5%*	30.2	*17.5%*
Interline passengers ('000s)	452	412	*9.7%*	386	*6.7%*

Retail revenue

Retail revenue performance	H1 2014	H1 2013	Y-O-Y Movement
Retail revenue (€ million)	90.4	87.1	3.8%
Retail revenue per passenger (€)	19.58	19.06	2.7%

Retail revenue performed strongly over the course of the first six months of 2014. H1 2014 retail revenue of €90.4 million represented a 3.8% increase over H1 2013. Average spend per passenger increased by 2.7%. On a year-on-year basis, on-line booking fees, baggage charges (supported by the recently implemented revised baggage charge model) and seat selection were key elements in the increase.

Cargo

Cargo revenue performance	H1 2014	H1 2013	Y-O-Y Movement
Cargo revenue (€ million)	21.6	22.3	(3.1%)
Cargo tonnes - scheduled ('000s)	13,162	13,411	(1.9%)

Cargo revenue declined 3.1% in H1 2014 due to a reduction in tonnage over the period attributable to difficult market conditions.

Operating costs

Total operating costs, before net exceptional items, increased by 4.9% to €707.1 million (H1 2013: €674.3 million). This increase is partly related to increased long haul flying activity in the first six months of 2014 together with a full period of contract flying operations but is partly offset by favourable foreign exchange movements.

€ million	H1 2014	H1 2013	Y-O-Y Movement
Fuel cost	170.3	175.6	(3.0%)
Staff costs	143.1	137.9	3.8%
Airport and en-route charges	178.4	172.6	3.4%
Other operating costs	215.3	188.2	14.3%
Total operating costs, before net exceptional items	**707.1**	**674.3**	**4.9%**

Fuel costs represented 24.1% of total operating costs in H1 2014 (2013: 26.0%). US$ denominated fuel costs in H1 2014 decreased by 1.7% to $233.4 million (H1 2013: US$229.4 million). The overall fuel cost decrease is due to volume increases offset by favourable price and FX impact. Block hours flown increased by 3.5% year-on-year, driven by the impact of the additional long haul aircraft on transatlantic services in the Summer 2014 schedule. Virgin assumes fuel costs in respect of the "Little Red" contract flying operations. The average blended price of fuel, per tonne, excluding into-plane fees decreased 3.3% to US$981 (H1 2013: US$1,015). A weaker average US$/EUR FX rate of $1.37 in H1 2014 compared with $1.31 in H1 2013 resulted in a favourable FX variance of €7.8 million. At 30 June 2014, Aer Lingus had hedged 79.9% of its expected fuel requirement for the remainder of 2014 at US$950 per metric tonne.

Staff costs represented 20.2% of total operating costs in H1 2014 (H1 2013: 20.5 %). Staff costs increased by approximately 3.8% year-on-year as a result of recruitment of 143 additional FTEs to support higher levels of effective mainline operations (long haul Airbus 330 and Boeing 757 flying) as well as the 2014 effect of the annual staff increment from September 2013 and paid in line with Irish Labour Court recommendations on the IASS. These increases offset €2.5 million of staff cost reductions attributable to exits under the 2013 voluntary severance programme.

Airport & en-route charges, represented 25.2% of operating costs in H1 2014, increased by 3.4% to €178.4 million (H1 2013: €172.6 million).This was due to price increases in some of Aer Lingus' most significant airports (including Dublin, London Gatwick and Amsterdam) as well as additional passengers numbers pre-clearing at Dublin airport and additional handling charges due to the Group's new North Atlantic services. Charges were also impacted by a stronger GBP relative to EUR year-on-year which out-weighted the benefits of the weak US$.

Other operating costs increased by 14.3% year-on-year:

€ million	**H1 2014**	**H1 2013**	**Y-O-Y Movement**
Maintenance costs	35.0	35.3	(0.8%)
Depreciation	44.9	41.3	8.7%
Aircraft operating lease costs	29.9	22.1	35.3%
Distribution costs	30.7	27.4	12.0%
Ground operations and other costs	73.6	64.6	13.7%
Other (gains)/ losses	1.1	(2.5)	(144.0%)
Total other operating costs	**215.3**	**188.2**	**14.3%**

H1 2014 maintenance costs decreased by 0.8%, to €35.0 million, reflecting:

- Lower de-icing costs due to a more favourable weather conditions in the first six months of 2014;
- Lower engine costs reflecting efforts to manage patterns of engine use so as to minimise the expected costs of returning aircraft to lessors at the end of their operating leases. Aer Lingus' flexibility to do this is constrained by the practicalities of its schedule resulting in some volatility in reported engine maintenance costs from reporting period to period, and
- Maintenance cost savings were broadly offset by full period effect of costs for Virgin and Novair contract flying maintenance which commenced in April 2013 and December 2013, respectively.

Depreciation costs have increased by 8.7% in H1 2014 associated with the depreciation of capital expenditure related to the new Boeing 757 fit-outs and increased IT capex spend on a number of projects.

Aircraft operating lease costs increased by 35.3% related to the damp lease of three Boeing 757 aircraft to support Aer Lingus' transatlantic expansion. In addition, the H1 2014 charge reflects a full six months of operating lease cost associated with the additional aircraft needed for the Virgin operation. These increased operating lease rental cost are partly offset by a more favourable US$ rate compared with 2013.

Distribution costs increased by 12.0% as a result of higher credit card handling charges and commission costs which all increased in line with the increased sales and volumes achieved in 2014.

Ground operations/catering and other operating costs increased by 13.7% year-on-year. This reflects several items including increased catering and other direct operating costs associated with expanded transatlantic flying.

Other net gains/ losses largely consist of gains from maturing currency contracts used to manage foreign exchange exposure reflected in other income statement captions. The loss at 30 June 2014 of €1.1 million primarily reflects the negative differential between the H1 2014 average US$ hedged rate (of US$1.33) vs. average US$ spot rate (of US$1.37) compared to a positive differential in H1 2013 (i.e. average US$ hedged rate of US$1.37 vs. average spot rate of US$1.31).

Other net gains/(losses)	**H1 2014**	**H1 2013**
Average hedged rate (EUR/US$)	1.33	1.37
Average market/spot rate (EUR/US$)	1.37	1.31
Hedged rate/spot rate spread	(0.04)	0.06

Net exceptional items

H1 2014 net exceptional costs of €2.5 million includes €1.9 million of professional and other fees related to the proposed resolution of the funding issues facing the IASS. An amount of €0.5 million relates to voluntary staff severances in H1 2014 which represent some late exits associated with the 2013 voluntary severance programme. It is expected that Aer Lingus will incur additional exceptional costs in the region of approximately €5 million over the remainder of 2014 relating to professional fees and other implementation costs if the current proposal to resolve the funding issues in the IASS goes ahead. In addition, the Expert Panel recommendations for the IASS pension issue, if approved, would result in a one-off exceptional cost of €190.7 million charged to the income statement as an exceptional item. Depending on timing, this could be either a 2014 or 2015 item.

Financing income and costs

€ million	**H1 2014**	**H1 2013**
Finance income	5.2	5.3
Finance expense	(7.2)	(7.8)
Net finance expense	**(2.1)**	**(2.5)**
Average cash	992.0	992.0
Average deposit interest rate	0.92%	0.96%
Average debt	465.4	525.8
Average finance interest rate	2.52%	2.46%

The reduction in finance expense from €7.8 million to €7.2 million mainly reflects the impact of lower levels of outstanding finance lease debt. Finance income of €5.2 million (2013: €5.3 million) decreased by 1.9% reflecting the impact of lower deposit interest rates.

Taxation

There was a tax credit for the period of €1.8 million (H1 2013: €4.7 million) reflecting the application of the estimated full year effective income tax rate of 12.9% to the results for the first half.

Cash flow, gross cash and debt

€ million	**30 June 2014**	**31 December 2013**	**30 June 2013**
Gross cash	1,034.4	897.4	1,015.8
Gross debt	(448.7)	(477.6)	(513.7)
Net cash	585.7	419.8	502.1

Significant cash flow movements in the six months to 30 June 2014 are as follows:

Movements in gross cash	**€ million**
Cash from operations before FX on deposits	218.4
Net capex	(28.6)
Interest received	2.0
Free cash flow	191.8
Debt repaid	(33.6)
Dividend paid	(21.3)
Interest accrued	0.7
Investment in Joint Venture	(1.3)
FX	0.7
Net movement on gross cash	**137.0**
Gross cash at 31 December 2013	897.4
Gross cash at 30 June 2014	1,034.4

Gross cash has increased by €137.0 million in the six month period to 30 June 2014. Free cash flow of €191.8 million is driven by seasonal working capital inflow of € 184.8 million related to advance passenger booking revenues. Significant cash outflows in the period included €33.6 million of finance lease repayments, €21.3 million in respect of the 2013 dividend paid in May 2014 and €28.6 million of net capital expenditure.

Significant movements in gross debt for the six months ended 30 June 2014 are as follows:

Movements in gross debt	**€ millions**
Gross debt at 31 December 2013	477.6
Interest accrued	2.5
Debt repaid	(33.6)
FX	2.1
Gross debt at 30 June 2014	448.7

Debt repayment schedule

The Aer Lingus debt maturity profile extends until 2023. In the second half of 2014, Aer Lingus expects to make further bullet finance lease repayments of €69.1 million (out of the total H2 payments of €83.7 million) which will result in an additional four A320 aircraft becoming unencumbered. The Group's finance lease repayment schedule from 2015 through the remainder of the lease terms, at current US$/EUR FX rates, is as follows:

€ million	2015	2016	2017	2018	2019	Later
Finance lease principal repayments	84.8	27.3	28.6	64.8	105.4	54.1

Fuel and currency hedging

To achieve greater certainty on costs, Aer Lingus manages its exposure to fluctuations in the prices of fuel and foreign currency through hedging. At 30 June 2014, the Group's estimated fuel requirements for the remainder of 2014 and for 2015 were hedged as follows:

Fuel hedging	Q3 2014	Q4 2014	Total H2 2014	Total 2015
Estimated tonnes ('000s)	146	111	257	501
% hedged	85%	73%	80%	27%
Average price per tonne (excluding into-plane costs)	US$954	US$945	US$950	US$937

Aer Lingus' main foreign currency exposure is to the US$. At 30 June 2014, our forward purchases of US$ comprised:

US$ currency hedging	Q3 2014	Q4 2014	Total H2 2014	Total 2015
Forward purchases of US$ (US$ million)	80	54	134	117
Average rate (US$ to EUR)	1.334	1.345	1.339	1.355

In addition to US$ hedging, Aer Lingus has also sold forward 78% of its expected exposure to surplus GBP for the remainder of 2014 at an average rate of 0.84 as at 30 June 2014. Also, the Group had sold forward 58% of its expected 2015 exposure to surplus GBP at an average of 0.84 as at the end of June 2014.

Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed as disclosed on pages 31 to 37 in the "Principal risks and uncertainties" section of the annual consolidated financial statements for the year ended 31 December 2013 continue to apply. They include economic risks, relationships and alliances with other airlines, staff productivity and industrial relations, our ability to recover increases in commodity costs, the impact of ongoing organisation change programmes, potential for operational disruption, and fleet management.

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 economic challenges in the Group's primary markets, in particular the Group's core Irish market and key European markets, have negatively impacted performance and are likely to continue to impact the Group's business for the foreseeable future. Any further deterioration in the Irish economy, particularly events which may damage consumer confidence, disposable income, inbound tourism or foreign investment may have a significant adverse effect on the business.
- **Currency:** The strength of the US dollar against the euro may adversely affect outbound bookings on transatlantic routes and may increase those Group costs, particularly fuel, that are denominated in US Dollars
- **Closure or disruption of airspace**: A closure or disruption of airspace, for example caused by extreme weather, volcanic ash or other reasons, 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 protecting the ongoing benefits to the business of successful past restructuring programmes including the Greenfield cost savings programme. Industrial action or the threat of industrial action that may arise in response to the continued focus on cost control could have a negative impact on the Group's financial and operating performance. In this context, the Group continues to negotiate with unions representing various sections of its workforce in particular around the implementation of the CORE programme, cabin crew rostering and pensions. If these discussions were to prove unsuccessful, any subsequent industrial action could prove damaging to the Group's business.
- **People**: The Group's future performance is dependent on its ability to recruit and retain strong and effective staff at all levels, in line with the operational size and shape of the business.
- **Pension:** The trust deeds governing the IASS and the Pilots Pension Scheme (collectively the "Irish Pension 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 2013 (the most recent date in respect of which estimated MFS data has been provided by advisors to the IASS), the IASS was estimated to have an actuarial deficit of approximately €715 million on the statutory minimum funding standard basis. At 31 December 2013 (the most recent date in respect of which estimated MFS data has been provided by advisors to the Pilots Pension Scheme), the Irish Airlines (Pilots) Superannuation Scheme was estimated to have an actuarial deficit of approximately €167 million on the statutory minimum funding standard basis. In the absence of additional funding commitments from Aer Lingus and the other sponsoring employers, the Trustees of the Irish Pension Schemes will be required to take measures to improve the schemes' 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 Group 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 Group's position that it has no responsibility for the deficit in the Irish Pension Schemes 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 Group has received, a court were to find against the Group in any such litigation, significant or very significant loss could arise.

In the context of the IASS funding shortfall, Aer Lingus Limited has attempted to assist in the achievement of a fair outcome that improves the pension prospects of affected IASS members in a way that will balance the interests of all parties, including shareholders and employees. On this basis, Aer Lingus Limited has participated in a process of discussion under the auspices of the Labour Relations Commission which commenced in 2010 and has also involved the Irish Business and Employers Confederation, the Irish Congress of Trade Unions, the Labour Court and an Expert Panel most recently. This process has resulted in the development of a proposal (the "IASS Proposal") to address the funding shortfall in the IASS and place the provision of pension benefits in Aer Lingus on a sustainable basis.

The IASS Proposal and the related approval and implementation process represent a highly complex range of approvals, consents and agreements involving the IASS Trustee, the Pensions Authority, Aer Lingus Limited, Aer Lingus Group plc shareholders, DAA, trade unions, active and deferred members, all of which needs to be achieved in order for the IASS Proposal to be successfully implemented. Given the nature of the proposed adjustments to participants' interests, it is possible that the implementation of the IASS Proposal could potentially result in disputes involving Aer Lingus, DAA, SR Technics and Shannon Airport Authority Limited and/or the IASS Trustee which could prove damaging to the Group's business.

See Note 16 for a detailed update on the Group's response to this issue.

- **Competition:** The Group faces strong competition in the markets in which it operates and if the Group fails to continue to respond effectively to that competition, market share and financial performance could be impacted.
- **Group ownership:** The Group's current share ownership configuration and speculation over future ownership continue to require considerable time investment by senior management. There is a risk that continued uncertainty of this nature will inhibit management's ability to develop and implement its business strategy, leading to a potential loss in competitiveness. This uncertainty may also deter customers from booking with Aer Lingus if they become concerned about the future of the airline.
- **Safety**: Failure to operate safely or to adequately respond to an emergency safety incident could adversely impact the Group's operation and financial performance.
- **Fuel**: Significant fluctuations in the price of fuel could negatively impact the Group's operations.
- **Taxes:** New passenger taxes could have a material effect on the performance of Aer Lingus' routes. In addition, changes to existing passenger taxes imposed with retrospective effect could have a material impact on the Group's financial position. Refer to Note 18 for further details in respect of developments in relation to air travel taxes.

Responsibility Statement

The Directors are responsible for preparing this first half results report and the condensed consolidated interim financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, Interim Financial Reporting as adopted by the European Union.

Each of the directors, being those whose names and functions are listed on pages 38 to 40 of our 2013 Annual Report, along with Emer Gilvarry whom was appointed to the board on the 28th March 2014, confirm that, to the best of each person's knowledge and belief:

- the condensed consolidated interim financial statements for the half year ended 30 June 2014 has been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34, adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim financial statements for the half year ended 30 June 2014, and a description of the principal risks and uncertainties for the remaining six months;

- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

Signed on behalf of the Board

Andrew Macfarlane
Director and Chief Financial Officer

Christoph Mueller
Director and Chief Executive Officer

30 July 2014

Independent review report to Aer Lingus Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the first half results report of Aer Lingus Group plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are 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. This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Aer Lingus Group plc, comprise:

- the condensed consolidated interim statement of financial position as at 30 June 2014;
- the condensed consolidated interim income statement and condensed consolidated interim statement of comprehensive income for the period then ended;
- the condensed consolidated interim statement of cash flows for the period then ended;
- the condensed consolidated interim statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.
The condensed consolidated interim financial statements included in the first half results report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', 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.

What a review of condensed consolidated interim financial statements involves

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.

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 consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The first half results report, including the condensed consolidated interim financial statements, 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.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim 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 complying with 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 giving this conclusion, 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.

PricewaterhouseCoopers
Chartered Accountants
Dublin,
Ireland
30 July 2014

Notes

(a) The maintenance and integrity of the Aer Lingus Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Condensed consolidated interim income statement (unaudited)

Six months ended June 30

	Note	**2014**	2013
		€'000	€'000
Revenue	*7*	**697,198**	657,865
Operating expenses (before exceptional items)			
Staff Costs		**143,143**	137,870
Depreciation and amortisation		**44,893**	41,257
Aircraft operating lease costs		**29,896**	22,109
Fuel and oil costs		**170,304**	175,621
Maintenance expenses		**35,035**	35,300
Airport charges		**148,926**	142,734
En-route charges		**29,457**	29,844
Distribution charges		**30,709**	27,365
Ground operations , catering and other operating costs		**73,600**	64,711
Other (gains)/losses - net	*8*	**1,090**	(2,524)
		707,053	674,287
Operating loss before net exceptional items		**(9,855)**	(16,422)
Net exceptional items	*9*	**(2,471)**	(9,313)
Operating loss after net exceptional items		**(12,326)**	(25,735)
Finance income	*10*	**5,153**	5,335
Finance expense	*10*	**(7,214)**	(7,802)
		(2,061)	(2,467)
Share of profit/ (loss) of joint venture	*22*	**245**	(8)
Loss before taxation		**(14,142)**	(28,210)
Income tax credit		**1,799**	4,667
Loss for the period		**(12,343)**	(23,543)
Loss attributable to:			
- owners of the parent		**(12,343)**	(23,543)
Loss per share for loss attributable to the owners of the parent			
(expressed in cent per share)			
- basic and diluted		**(2.3c)**	(4.4c)

The notes on pages 23 to 36 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	**2014**	2013
		€'000	€'000
Loss for the period		**(12,343)**	(23,543)
Other comprehensive income/(loss)			
Items which may be reclassified to the income statement			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve		**(84)**	(78)
- Deferred tax impact		**9**	10
Cash flow hedges			
- Fair value losses		**(2,355)**	(4,646)
- Deferred tax impact		**294**	581
- Transfer to fuel costs		**(5,824)**	969
- Deferred tax impact		**728**	(121)
- Transfer to other gains - net		**6,747**	633
- Deferred tax impact		**(843)**	(79)
- Transfer to other receivables		**-**	595
- Deferred tax impact		**-**	(74)
Retranslation reserve			
- Share of joint venture		**(76)**	-
- Deferred tax impact		**-**	-
Total of items which may be reclassified to income statement		**(1,404)**	(2,210)
Items that will not be reclassified to the income statement			
- Re-measurements of post employment benefit arrangements		**(4,862)**	3,795
- Deferred tax impact		**608**	(474)
Total of items which will not be reclassified to the income statement		**(4,254)**	3,321
Total other comprehensive (loss)/income		**(5,658)**	1,111
Total comprehensive loss for the period		**(18,001)**	(22,432)
Total comprehensive loss attributable to:			
- owners of the parent		**(18,001)**	(22,432)

The notes on pages 23 to 36 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of financial position (unaudited)

		As at 30 June 2014	As at 31 December 2013 As restated	As at 30 June 2013
ASSETS	*Note*	**€'000**	€'000	€'000
Non-current assets				
Property, plant and equipment	*21*	**668,989**	689,447	719,497
Intangible assets	*21*	**16,538**	14,444	13,220
Investment in joint ventures	*22*	**14,102**	13,933	10,756
Loans and receivables	*15*	**-**	11,742	44,648
Derivative financial instruments	*14*	**1,350**	1,268	316
Trade and other receivables	*12*	**41,616**	43,278	38,393
Deferred tax asset		**-**	-	5,998
Deposits	*15*	**107,235**	101,752	115,772
		849,830	875,864	948,600
Current assets				
Inventories		**2,408**	2,536	2,015
Loans and receivables	*15*	**44,898**	31,887	-
Derivative financial instruments	*14*	**7,379**	10,125	6,721
Trade and other receivables	*12*	**107,671**	65,328	83,563
Deposits	*15*	**602,335**	563,229	533,391
Cash and cash equivalents	*15, 24*	**279,954**	188,805	324,974
		1,044,645	861,910	950,664
Assets held for sale	*11*	**-**	-	301
Total current assets		**1,044,645**	861,910	950,965
Total assets		**1,894,475**	1,737,774	1,899,565
EQUITY				
Called-up share capital	*19*	**26,702**	26,702	26,702
Share premium	*19*	**359,449**	359,449	359,449
Other reserves		**4,960**	7,126	6,962
Retained earnings		**422,090**	459,490	397,829
Total equity		**813,201**	852,767	790,942
LIABILITIES				
Non-current liabilities				
Finance lease obligations	*20*	**329,981**	363,277	473,111
Derivative financial instruments	*14*	**570**	215	1,687
Post employment benefit obligations	*16*	**34,644**	28,254	32,022
Provisions for other liabilities and charges	*17*	**62,454**	57,627	48,482
Deferred tax liability		**1,249**	3,864	-
		428,898	453,237	555,302
Current liabilities				
Trade and other payables	*13*	**507,656**	284,070	475,408
Bank overdrafts	*15, 24*	**-**	-	2,941
Finance lease obligations	*20*	**118,689**	114,321	40,563
Derivative financial instruments	*14*	**8,116**	14,274	9,694
Provisions for other liabilities and charges	*17*	**17,915**	19,105	24,715
		652,376	431,770	553,321
Total liabilities		**1,081,274**	885,007	1,108,623
Total equity and liabilities		**1,894,475**	1,737,774	1,889,565

The notes on pages 23 to 36 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity (unaudited)

All movements are attributable to the owners of the parent.

	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	Retranslation reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2013	26,702	510,605	5,048	343,796	7,069	264	(5,615)	5,865	-	(59,023)	834,711
Loss for the period	-	-	-	-	-	-	-	-	-	(23,543)	(23,543)
Other comprehensive (loss)/income for the period ended 30 June 2013	-	-	-	-	(2,142)	(68)	-	-	-	3,321	1,111
Total comprehensive loss for the period	-	-	-	-	(2,142)	(68)	-	-	-	(20,222)	(22,432)
Exercise of share awards	-	-	-	-	-	-	2,728	(3,607)	-	(1,640)	(2,519)
Share based payment reserve	-	-	-	-	-	-	-	1,630	-	-	1,630
Deferred tax impact	-	-	-	-	-	-	-	838	-	-	838
Dividends paid (4 cent per share)	-	-	-	-	-	-	-	-	-	(21,286)	(21,286)
Capital reduction	-	(151,156)	(5,048)	(343,796)	-	-	-	-	-	500,000	-
Balance at 30 June 2013	26,702	359,449	-	-	4,927	196	(2,887)	4,726	-	397,829	790,942
Balance at 1 January 2014	**26,702**	**359,449**	**-**	**-**	**4,056**	**123**	**(2,887)**	**6,315**	**(481)**	**459,490**	**852,767**
Loss for the period	-	-	-	-	-	-	-	-	-	(12,343)	(12,343)
Other comprehensive loss for the period ended 30 June 2014	-	-	-	-	(1,253)	(75)	-	-	(76)	(4,254)	(5,658)
Total comprehensive loss for the period	-	-	-	-	(1,253)	(75)	-	-	(76)	(16,597)	(18,001)
Exercise of share awards	-	-	-	-	-	-	981	(2,726)	-	516	(1,229)
Share based payment reserve	-	-	-	-	-	-	-	983	-	-	983
Dividends paid (4 cent per share)	-	-	-	-	-	-	-	-	-	(21,319)	(21,319)
Balance at 30 June 2014	**26,702**	**359,449**	**-**	**-**	**2,803**	**48**	**(1,906)**	**4,572**	**(557)**	**422,090**	**813,201**

The notes on pages 23 to 36 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	**2014**	2013
		€'000	€'000
Cash flows from operating activities			
Cash generated from operations	*23*	**219,734**	173,106
Income tax paid		**(19)**	(16)
Net cash generated from operating activities		**219,715**	173,090
Cash flows from investing activities			
Purchases of non-current assets (net of lease finance raised)		**(28,640)**	(22,602)
Increase in deposits		**(46,473)**	(97,376)
Interest received		**5,598**	5,456
Share capital of joint venture paid up		**(1,326)**	(3,771)
Net cash used in investing activities		**(70,841)**	(118,293)
Cash flows from financing activities			
Repayment of finance lease obligations		**(33,568)**	(23,131)
Interest paid		**(3,580)**	(4,103)
Dividends paid		**(21,319)**	(21,286)
Net cash used in financing activities		**(58,467)**	(48,520)
Net increase in cash, cash equivalents and bank overdrafts		**90,407**	6,277
Cash, cash equivalents and bank overdrafts at 1 January		**188,805**	312,939
Exchange gains on cash, cash equivalents and bank overdrafts		**742**	2,817
Cash, cash equivalents and bank overdrafts at 30 June	*24*	**279,954**	322,033

The notes on pages 23 to 36 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 2014, 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 2014, 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 2013, 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 Regulation 40 of the Group Accounts Regulations 1992. The statutory accounts for the year ended 31 December 2013, which were approved by the Board of Directors on 27 March 2014, contained an unqualified audit report and are due to be filed with the Companies Registration Office by 30 September 2014.

The Board of Directors approved the condensed consolidated interim financial statements for the six month period ended 30 June 2014 on the 30 July 2014.

The accounting policies adopted are consistent with those of the previous financial year, except as described below.

(i) Adoption of IFRS and IFRS Interpretations Committee ("IFRS IC") Interpretations

The following new standards, amendments to existing standards and interpretations have been adopted from 1st January 2014. There has been no impact to the reported results, statement of financial position or disclosures as a result of their application. These standards are:

- IFRS 10, 'Consolidated financial statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of interests in other entities'
- IAS 27 (revised 2011), 'Separate financial statements'
- IAS 28 (revised 2011), 'Associates and joint ventures'
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities
- Amendment to IFRS 10, 11 and 12 on transition guidance
- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting
- Amendment to IAS 36 'Impairment of assets' on recoverable amounts disclosures
- Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives'
- IFRIC 21, 'Levies'

(ii) Reclassification adjustment - offsetting balance in trade and other receivables/payables

At 31 December 2013, the settlement of a prepaid trade receivable (€8.2 million) was recorded in trade payables and the corresponding trade receivable and trade payable balances were separately reported and not offset. The absence of this offset meant that both current trade and other receivables and payables were overstated by €8.2 million as at 31 December 2013. As both items relate to the same transaction, the 31 December 2013 statement of financial position has been reclassified and the amounts offset. This reclassification has had no impact on the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cashflows or Earnings per Share. The impact on the Statement of Financial Position as at 31 December 2013 is shown below:

As at 31 December 2013	**As previously reported**	**Adjustments**	**As restated**
	€'000	**€'000**	**€'000**
Trade and other receivables - current	73,526	(8,198)	65,328
Trade and other payables - current	292,268	(8,198)	284,070

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 continues to adopt the going concern basis in the preparation of the condensed, 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 interim financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

In preparing these condensed, consolidated interim financial statements, the accounting policies adopted (except as stated in Note 2 above), 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 2013.

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, the Group has presented the statement of financial position as at 30 June 2013 as an additional comparative, as encouraged by IAS 34. The Group has also presented the comparative notes as at 30 June 2013 for trade and other receivables, trade and other payables and gross cash, these being which are the balances most impacted by seasonality.

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 is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker (the Group CEO) evaluates route profitability data, which considers passengers flown across the network, aircraft type and route economics.

The chief operating decision maker assesses operating segment performance based on a measure of adjusted operating loss before net exceptional items. Finance income and expense, and share of result of joint venture, are not included in the segmental results reviewed by the chief operating decision maker.

Total segment assets exclude deferred tax, investment in joint venture, 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 assets shown in the statement of financial position. Segment revenue of €697.2 million (2013: €657.9 million) is wholly derived from external customers.

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Adjusted loss before net exceptional items for the reportable segment	**(10,115)**	(17,592)
Miscellaneous group level adjustments	**260**	1,170
Net exceptional items	**(2,471)**	(9,313)
Operating loss after net exceptional items	**(12,326)**	(25,735)
Finance income	**5,153**	5,335
Finance expense	**(7,214)**	(7,802)
Share of gain/(loss) of joint venture	**245**	(8)
Loss before income tax	**(14,142)**	(28,210)

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

	As at 30 June 2014	As at 31 December 2013 as restated
	€'000	€'000
Total segment assets	**845,951**	826,426
Investments in joint venture	**14,102**	13,933
Loans and receivables	**44,898**	43,629
Deposits	**709,570**	664,981
Cash and cash equivalents	**279,954**	188,805
Total assets per statement of financial position	**1,894,475**	1,737,774

7 Revenue

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Passenger revenue	**563,046**	538,364
Retail revenue	**90,366**	87,123
Cargo revenue	**21,643**	22,345
Other revenue	**22,143**	10,033
	697,198	657,865

8 Other losses/ (gains) – net

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Realised losses/(gains) on forward foreign currency contracts	**955**	(2,632)
Net foreign exchange losses on operating activities	**135**	108
	1,090	(2,524)

9 Net exceptional items

Exceptional items are material, non-recurring items that derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, are separately disclosed by virtue of their size or incidence. The separate reporting of exceptional items helps provide a more useful picture of the Group's underlying performance. An analysis of the amounts presented as exceptional items in these financial statements is given below.

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Restructuring and termination cost (a)	**(620)**	(5,531)
Professional and legal fees (b)	**(1,851)**	(3,782)
	(2,471)	(9,313)

(a) Restructuring and termination costs

Restructuring

The 2014 restructuring net debit of €0.1 million which includes a credit of approximately €0.4 million arising from a remeasurement of the provision (which was created for downsizing of Shannon line maintenance) following operational decisions made in 2014 which impacted the original estimates and assumptions in respect of maintenance of Boeing 757 aircraft as well as the costs of eliminating specific functions and roles (€0.5 million).

The 2013 restructuring comparative comprises €1.0 million in respect of the severance cost for employees who exited under the legacy Greenfield cost reduction programme and €1.5 million of the then ongoing restructuring activity.

Termination

On 25 April 2013, Aer Lingus launched a Voluntary Severance Programme (the "Programme") for applicants who satisfied certain selection criteria. The target of the Programme was to reduce employee headcount levels by approximately 100 by the end of 2013. As of 30 June 2013, 37 applicants had formally agreed to participate in the Programme at a total cost of €3.0 million.

As at 30 June 2014, 125 applicants had been accepted and had left employment with Aer Lingus. A further 2 applicants have formally agreed to participate in the Programme and leave employment with Aer Lingus during 2014. The related severance cost, including provisions, for these Programme participants of €0.5 million in the six months ended June 2014 (June 2013: €3.0 million) represent a termination cost under IAS 19R and are recognised within the restructuring and termination charges above. Liabilities for unpaid termination benefits at the period end are included within business repositioning provisions (see Note 17).

(b) The amount in 2014 relates to advice received in relation to the ongoing negotiation of pension issues. The comparative amount in 2013 includes the balance of bid defence costs associated with the takeover bid from the Group's largest shareholder Ryanair Holdings plc which was prohibited by the European Commission on 27 February 2013, as well as costs related to the negotiation of pension issues and fees relating to the capital reduction exercise.

10 Finance income and expense

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Finance income		
Interest on cash, cash equivalents and deposits	**3,534**	3,578
Interest income on loans and receivables	**943**	943
Amortisation of available-for-sale-reserve	**84**	78
Unwinding of discounting on non-current prepayments	**592**	736
	5,153	5,335
Finance expense		
Interest expense on finance lease obligations	**(6,453)**	(6,912)
Net interest expense on post employment benefit obligations	**(564)**	(584)
Unwinding of discounting of provisions	**(197)**	(306)
	(7,214)	(7,802)

11 Held for Sale Assets

	As at 30 June	
	2014	2013
	€'000	€'000
Engine	**-**	301
	-	301

At June 2013, a spare engine was segregated from the operating fleet and held in anticipation of a sale which was agreed in July 2013. A gain on disposal of approximately €2.2 million was recorded in the second half of 2013.

12 Trade and other receivables

	As at 30 June 2014	As at 31 December 2013 as restated[1]	As at 30 June 2013 as restated[2]
	€'000	€'000	€'000
Trade and other receivables[1]	**66,932**	45,354	62,409
Other amounts receivable[2]	**29,917**	28,124	32,670
Prepayments and accrued income[2]	**52,438**	35,128	26,877
	149,287	108,606	121,956

Shown as:

	As at 30 June 2014	As at 31 December 2013 as restated[1]	As at 30 June 2013 as restated
	€'000	€'000	€'000
Non-current assets	**41,616**	43,278	38,393
Current assets	**107,671**	65,328	83,563
	149,287	108,606	121,956

[1] See Basis of Preparation - Note 2 (ii).

[2] At 30 June 2013, amounts relating to accrued interest receivable were presented within other amounts receivable. At 31 December 2013 and 30 June 2014, accrued interest receivable has been presented within prepayments and accrued income as the Directors consider that this category best represents the nature of the asset. For consistency, the comparative amounts at 30 June 2013 have been restated to reflect a reclassification of €6.1 million from other amounts receivable to prepayments and accrued income. This reclassification had no impact on the primary financial statements.
At 30th June 2014 and at 31 December 2013, amounts relating to VAT (€3.1 million and €1.9 million respectively) are included in the other amounts receivable balance. For consistency, the comparative (€2.6 million) at 30 June 2013 has been reclassified to be included within the other amounts receivable balance as it had been classified separately as VAT at 30 June 2013.

13 Trade and other payables

	As at 30 June 2014	As at 31 December 2013 As restated[1]	As at 30 June 2013 as restated[2]
	€'000	€'000	€'000
Trade payables[1]	**74,444**	55,115	82,023
Accruals and deferred income[2]	**59,081**	55,832	54,485
Ticket sales in advance excluding taxes and charges[3]	**299,300**	133,131	262,443
Employment related taxes	**6,270**	7,154	5,809
Other amounts payable[2]	**68,561**	32,838	70,648
	507,656	284,070	475,408

[1] See Basis of Preparation - Note 2 (ii).

[2]At 30 June 2013, amounts relating to accrued interest payable were presented within other payables. At 31 December 2013 and at 30 June 2014, accrued interest payable has been presented within accruals and deferred income, as the Directors consider that this category best represents the nature of the liability. For consistency, the comparative amounts at 30 June 2013 above have been restated to reflect a reclassification of €3.8 million from other payables to accruals and deferred income. This reclassification had no impact on the primary financial statements.

[3]In the six months to 30 June 2014 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 become payable to the relevant authorities. Also, transatlantic revenues in the first six months of 2014 were positively impacted by the commencement of new direct services from Dublin to Toronto and San Francisco which in turn has resulted in an increase in the ticket sales in advance.

14 Derivative financial instruments

Derivative financial instruments represent the fair value of open forward foreign exchange contracts and fuel price swaps to which the Group is a party 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 2014 the fair value of fuel contract open positions has decreased due to the fact that fuel prices were US$15 per metric tonne lower at the period end than at 31 December 2013. This was offset by the increased value of the Group's foreign exchange hedges.

The gains and losses arising from cash flow hedging position are recognized in reserves until they are realized. The position in reserves is recognized net of deferred tax.

The statement of comprehensive income shows fair value losses to 30 June 2014 of €2.4 million (2013: €4.6 million). These represent the mark to market losses on the Group's portfolio of fuel hedges, offset by the gain inherent in the Group's portfolio of foreign exchange hedges.

Fair value estimation
The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2013.There have been no significant changes in the Group's approach to risk management department or in any risk management policies since the year end.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2014:

	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Assets				
Derivative financial instruments	-	8,729	-	8,729
Liabilities				
Derivative financial instruments	-	8,686	-	8,686

The following table presents the Group's net assets and liabilities that are measured at fair value at 31 December 2013:

	Level 1	Level 2	Level 3	Total
	€'000	**€'000**	**€'000**	**€'000**
Assets				
Derivative financial instruments	-	11,393	-	11,393
Liabilities				
Derivative financial instruments	-	14,489	-	14,489

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value
- The fair value of fuel price swaps is determined using forward fuel prices at the reporting date, with the resulting value discounted back to present value.

15 Gross Cash

	As at 30 June 2014 €'000	As at 31 December 2013 €'000	As at 30 June 2013 €'000
Non-current			
Loans and receivables	-	11,742	44,648
Deposits	**107,235**	101,752	115,772
	107,235	113,494	160,420
Current			
Deposits	**602,335**	563,229	533,391
Cash and cash equivalents	**279,954**	188,805	324,974
Loans and Receivables	**44,898**	31,887	-
Bank Overdraft	-	-	(2,941)
	927,187	783,921	855,424
Total Gross Cash	**1,034,422**	897,415	1,015,844

At 30 June 2014 the Group held deposits of €19.5 million (31 December 2013: €19.1 million), which were not available for immediate use by the Group.

16 Post employment benefits

Defined benefit schemes

The liabilities in respect of the Group's post employment benefit obligations are as follows:

	As at 30 June 2014	As at 31 December 2013
	€'000	€'000
North American Pension (a)	**2,728**	2,037
North American Post Employment Medical Benefit (b)	**2,204**	1,999
Income Streaming (c)	**29,970**	24,580
Other	**(258)**	(362)
	34,644	28,254

(a)The Group operates a defined benefit scheme for qualifying employees of its operation in North America. Under the scheme, employees are entitled to retirement benefits of 50% of final average compensation as a lump sum, plus 1% final average compensation for each year of membership, on attainment of retirement age of 65. Retirement benefits are reduced for service less than 20 years. The scheme has 109 members (31 December 2013: 114) with benefit accruals and plan participation frozen.

(b) The Group also operates a post employment medical benefit scheme for certain former employees of the operation in North America. This obligation is unfunded.

(c) The Group has a number of unfunded arrangements. These consist of arrangements in respect of certain current and former employees who have an elective entitlement to a pension at 60. These arrangements provide an income equating to a pension until members reach age 65, at which point benefits cease.

Actuarial losses during the half year are primarily driven by decreases to the discount rates applied to the net liabilities of the schemes by their actuaries.

Defined Contribution Schemes

The Group's operating subsidiary, Aer Lingus Limited, participates in a number of pension schemes for its staff. The two main pension schemes are the Irish Airlines (Pilots) Superannuation Scheme (the "Pilots' Scheme"), for its pilots, and the Irish Airlines (General Employees) Superannuation Scheme (the "IASS"), a multi-employer scheme (Dublin Airport Authority plc ("DAA"), Shannon Airport Authority plc ("SAA") and SR Technics being the other sponsoring employers) for other employees who fall within the category of "General Employees" (collectively the "Irish Pensions Schemes"). Aer Lingus Limited is the sponsoring company for the Group's participation in the Irish Pension Schemes. Although similar rules apply to both Irish Pension Schemes, the contribution rates and benefits differ between the schemes. Aer Lingus Limited's contributions to these two schemes are set out in the table below. The Irish Pension Schemes are accounted for as defined contribution schemes in both the entity accounts of Aer Lingus Limited and in the Group's consolidated accounts because the rate of contribution to these schemes is fixed.

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Irish Airlines (General Employees) Superannuation Scheme	**2,395**	2,390
Irish Airlines (Pilots) Superannuation Scheme	**5,676**	5,205
Irish Airlines Supplementary Schemes	**1,792**	1,835
	9,863	9,430

Two supplemental pension schemes were established at the time of the initial public offering of Aer Lingus Group plc in 2006, one for past service and one for future service. The purpose of the two supplemental schemes is to seek to provide, insofar as available funds permit and subject to their trustees' discretion, increases to pensions in payment for those members of the IASS who are also participants in the supplemental schemes where the IASS Trustee does not grant increases to pensions in payment in line with rises in the consumer price index. The two supplemental schemes do not apply to the Pilots' Scheme.

The trust deeds governing the IASS and the Pilots' Scheme to which Aer Lingus Limited contributes, state respectively that no changes to those contribution rates are possible without Aer Lingus Limited's consent. The Board remains of the opinion that the responsibility of Aer Lingus Limited to contribute to the Irish Pension Schemes is fixed at Aer Lingus Limited's current contribution rates and, accordingly that Aer Lingus Limited has neither a constructive nor a legal obligation to increase its rate of contributions to the Irish Pension Schemes, even if those schemes are found to have insufficient funds to pay all members the benefits relating to their current or past service.

The IASS is a multi-employer scheme with fixed contributions made by the employers and employees in accordance with the trust deed and rules. At 31 March 2013 (the most recent date for which IASS membership data is available and according to the annual report and financial statements of the scheme in respect of the year ended 31 March 2013) the IASS had 14,578 members, comprising 4,310 active members, 5,388 deferred members and 4,880 pensioners. Approximately 69% of members are current or former employees of Aer Lingus Limited. The statutory minimum funding standard (the "MFS") is an actuarial valuation of the funding status of the IASS if it were to be wound up under current legislation at a given date. As at 31 December 2013 (the most recent date in respect of which estimated MFS data has been provided by advisors to the IASS), the IASS was estimated to have an MFS deficit of approximately €715 million (the deficit at 31 December 2012 was €779 million). Approximately 65% of any deficit is attributable to employees or former employees of Aer Lingus Limited. Employees who have joined Aer Lingus Limited since late 2009 are not eligible to become members of the IASS.

Aer Lingus Limited and the other sponsoring employers have no obligation to contribute anything other than the fixed rate of contribution to the IASS and in the absence of the assumption of additional voluntary commitments, the IASS Trustee will be required to take measures to address the funding position of the IASS. If, as seems likely given the current funding position of the IASS, 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 Aer Lingus Limited 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 Aer Lingus Limited's position, that it has no responsibility for the deficit in the IASS, could be subject to legal challenge from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that Aer Lingus Limited has received (that such a challenge is unlikely to succeed), a Court were to find against Aer Lingus Limited in any such litigation, significant or very significant loss could arise. Although Aer Lingus Limited is aware that certain parties have threatened proceedings against the company in relation to the IASS, no proceedings have issued to date and it is not therefore practicable to estimate the financial exposure, if any, of Aer Lingus Limited should such claims be made and succeed.

If the IASS Trustee fails to agree a proposal with the Irish pensions regulator (the "Pensions Authority"), the IASS may have to be wound up. If a wind-up were to happen, active members and deferred members (note: deferred members are those who are no longer employed by Aer Lingus Limited but who have yet to reach their normal retirement age) would receive a significantly smaller percentage of their expected pension when they reach their normal retirement age.

At 31 March 2013 (the most recent date for which Pilots' Scheme membership data is available and according to the annual report and financial statements of the scheme in respect of the year ended 31 March 2013), the Pilots' Scheme had 893 members, comprising 433 active members, 113 deferred members and 347 pensioners. The triennial actuarial valuation performed by the trustee's actuary as at 31 March 2009 showed an MFS deficit at 31 March 2009 of €217 million. As part of the Greenfield agreements negotiated in late 2009 under the auspices of the Labour Relations Commission (the "LRC"), Aer Lingus Limited and the Irish Airlines Pilots Association agreed certain changes to the scheme with the aim of addressing the deficit over time. The changes included an increase in retirement age from 55 to 60, a reduction in accrual rate for future service from 45ths to 60ths and an increase in member contributions from 7% to 11% of salary. There was no change in employer contributions which remain at 21% of salary. The changes were approved by the Pilots' Scheme trustees and became effective as from 1 January 2011.

As at 31 December 2013 (the most recent date for which data has been provided by the Pilots' Scheme's advisors), the Pilots' Scheme was estimated to have an MFS deficit of approximately €167 million (the deficit at 31 December 2012 was €218 million). This represents coverage for active and deferred members of 49% (based on 100% pensioner coverage and market conditions as at 31 December 2013). Aer Lingus Limited's position that it has no responsibility for the deficit in this scheme could be subject to legal challenge on various grounds from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that Aer Lingus Limited has received (that such a challenge is unlikely to succeed), a Court were to find against Aer Lingus Limited in any such litigation, a significant loss could arise. No proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, to Aer Lingus Limited should such claims be made and succeed.

Discussions with relevant parties
In the context of the IASS funding shortfall, Aer Lingus Limited has attempted to assist in the achievement of a fair outcome that improves the pension prospects of IASS members in a way that will balance the interests of all parties, including shareholders and employees. On this basis, Aer Lingus Limited has participated in a process of discussion under the auspices of the LRC which commenced in 2010 and which has also involved the Irish Business and Employers Confederation ("IBEC"), the Irish Congress of Trade Unions ("ICTU"), the Irish Labour Court and, most recently, an Expert Panel established by two Irish Government departments, IBEC and ICTU.

In late 2012, Aer Lingus Limited engaged with parties involved in the IASS, alongside representatives of DAA, IBEC, ICTU and the Labour Court with a view to resolving funding issues in the IASS.

The Labour Court issued an interim recommendation on 2 January 2013 (the "Interim Recommendation") in respect of Aer Lingus Limited's participation in the IASS which set out indicative, non-guaranteed pension benefit targets which any solution should attempt to achieve. The Interim Recommendation was followed by the issue of a final recommendation in respect of Aer Lingus Limited's participation in the IASS on 24 May 2013 (the "Final Recommendation"). The Interim Recommendation and the Final Recommendation are advisory only and are not binding on Aer Lingus Limited, the trade unions or the IASS Trustee. In addition, the Interim Recommendation and the Final Recommendation relate to current employees only and do not relate to either former employees who have yet to retire (i.e. deferred members) or pensioners. The Labour Court has issued a separate recommendation to DAA in relation to its participation in the IASS.

Following the inability of the relevant parties to reach an agreement on the basis of the Interim Recommendation and the Final Recommendation, an Expert Panel was established in March 2014 with the objective of carrying out an urgent investigation as to how a final resolution of the industrial relations and other issues relating to the IASS could be secured. The Expert Panel issued its report on 16 June 2014.

The Interim Recommendation, the Final Recommendation and the report of the Expert Panel form the basis for a proposed solution to address that portion of the IASS funding shortfall which is attributable to current and former employees of Aer Lingus Limited (the "IASS Proposal").

The key elements of the IASS Proposal, reflecting the recommendations in the Expert Panel report issued in June 2014 are:

- The IASS Proposal should attempt to achieve the target levels of benefit set out in the Interim Recommendation. These target benefits should be achieved through a combination of (i) IASS benefits (reduced by the imposition of coordination and any further benefit reductions which the IASS Trustee considers appropriate); (ii) investment proceeds from a proposed once-off Aer Lingus Limited contribution of €146.7 million (see next bullet point); (iii) investment proceeds from employer and employee contributions in respect of future service into a new and separate defined contribution scheme for the benefit of Aer Lingus Limited's current employees (see next bullet point) and (iv) the Irish State pension;
- Subject to certain agreements and required approvals being obtained, a once-off lump sum of €146.7 million would be contributed by Aer Lingus Limited to individual pension funds within a new and separate defined contribution scheme for the benefit of Aer Lingus Limited's current employees who are members of the IASS. This contribution of €146.7 million was proposed by the Expert Panel, increasing the Labour Court's previous recommendation of a contribution of €110 million for the benefit of current employees. Each employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them;
- The payment of the April 2013 annual salary increment should be delayed until September 2013. Following the payment of this increment, annual increments should be replaced by cost stabilisation payments outlined in the Final Recommendation over the period to 2017 providing cost predictability and certainty over this period. Aer Lingus Limited has paid the April 2013 increment with effect from September 2013; and
- Subject to certain agreements and required approvals being obtained, a once-off contribution by Aer Lingus Limited of €44 million would be made available in respect of former employees of Aer Lingus Limited who are deferred members of the IASS. Each former employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them.

Notwithstanding the Interim Recommendation, the Final Recommendation and the Expert Panel report and Aer Lingus Limited's involvement in discussions over recent years to resolve funding issues in the IASS, it remains Aer Lingus Limited's position with respect to the IASS, and which is supported by firm legal advice, that it has no legal or constructive obligation other than to continue to pay the fixed rate contributions as set out in the trust deed and rules of the IASS. However, the deficit in the IASS is such that, if the IASS Proposal is not implemented, current and deferred members face the loss of a very large part of their expected pension benefits if this scheme is wound up under current legislation. In this context, Aer Lingus Limited believes that the IASS Proposal balances the interests of all parties, including shareholders, employees and customers.

Specifically, it is expected that the implementation of the IASS Proposal would:

a. Significantly improve the current and future pension prospects of Aer Lingus Limited employees who are members of the IASS;
b. Address the risks faced by Aer Lingus Limited arising from the potential for serious operational disruption through industrial action and the potential for protracted litigation in relation to pension matters; and
c. Provide Aer Lingus Limited with cost predictability and certainty over the period to 31 March 2017 as well as provide a basis for industrial relations stability.

Engagement with IASS Trustee

Aer Lingus Limited has engaged directly with the trade unions since the issue of the Final Recommendation in May 2013 to reach an agreement reflecting the matters set out in the Interim Recommendation, the Final Recommendation and related matters. Aer Lingus Limited has also engaged directly with the IASS Trustee in order to (i) confirm its agreement to move forward on the basis of the IASS Proposal (including changes and reductions to benefits); (ii) seek confirmation that the IASS would be closed to new members and that benefit accrual and employer and employee contributions for existing members would cease; and (iii) seek confirmation from the IASS Trustee that it is their intention to invest the IASS's assets in an appropriate bond based portfolio to achieve a broad matching between the IASS's projected cash inflows and outflows.

In July 2013, Aer Lingus Limited became aware of correspondence issued by the Pensions Authority to the IASS Trustee indicating that the outline proposal which the IASS Trustee had discussed with the Pensions Authority would not be an acceptable basis for a proposal.
Aer Lingus Limited continued to engage with the IASS Trustee and other relevant parties over the remainder of 2013 and into 2014. In October 2013, the IASS Trustee held a meeting with employer and trade union representatives where it set out proposals to address the funding issues facing the IASS in a manner which also attempted to address the concerns raised by the Pensions Authority. On 20 February 2014, the IASS Trustee provided Aer Lingus with a copy of the draft proposal which the IASS Trustee is preparing for submission to the Pensions Authority.

The IASS Trustee's draft proposal includes the following elements:

- The proposal would have a 25 year duration;
- Reduction in pensions in payment to the maximum extent permitted by recent priority-order changes following the enactment of amended Irish pension legislation in December 2013;
- Imposition of coordination in respect of IASS benefits payable to active and deferred IASS members who paid contributions on that basis;
- Removal of statutory revaluation;
- Reduction of 20% in accrued benefits for active and deferred members in addition to the imposition of coordination and removal of statutory revaluation;
- Cessation of IASS benefit accrual and contributions;
- Implementation of a liability driven investment strategy underpinned by investment in a fixed income portfolio targeting a yield of 4.5% per annum over the 25 year duration of the proposal; and
- Target completion date for implementation of the changes of 31 December 2014.

The draft proposal received from the IASS Trustee has not yet been submitted to the Pensions Authority and it remains the responsibility of the IASS Trustee to make the submission. Aer Lingus Limited therefore expects the IASS Trustee to move forward with the submission of this draft proposal as soon as is practicable on the basis that it represents a viable solution which would result in a better outcome for the affected parties than the forced winding up of the IASS. Aer Lingus Limited notes the Trustee's planned implementation date of 31 December 2014.

Recent developments – Expert Panel

The Expert Panel was subsequently formed in March 2014 under the joint sponsorship of two Irish Government departments, IBEC and ICTU. The purpose of the Panel was to investigate how a final resolution of the industrial relations issues relating to the IASS could be achieved following the inability of the parties to agree the recommendations issued by the Irish Labour Court in January and May 2013, respectively.

Aer Lingus Limited submitted to the Expert Panel that the parties should agree that the Labour Court Recommendations had to be used as a basis of definitively resolving the funding issues facing the IASS on the grounds that the proposed funding of €110 million in respect of IASS members who are in receipt of income from Aer Lingus Limited could address the targeted pension benefits set out in the Labour Court Recommendations. However, despite protracted negotiations with the trade unions, the IASS Trustee and other relevant parties, it has not been possible to reach agreement on this basis. The Expert Panel was set up as a final attempt to achieve a resolution of the funding issues facing the IASS.

The Expert Panel issued its report (the "Expert Panel Report") on 16 June 2014. The Expert Panel Report builds on the Labour Court Recommendations but there are some variations between the Expert Panel Report and the Labour Court Recommendations. These variations relate to the application of more conservative assumptions in relation to certain pension benefits as well as the buy-out of certain trade union pension funding claims which would otherwise have an adverse impact on Aer Lingus Limited's income statement. The effect of these variations is to increase the €110 million payment previously proposed to be paid by Aer Lingus Limited in respect of IASS members in receipt of income from Aer Lingus Limited to a proposed payment of €146.7 million while preserving the staff cost stabilisation measures previously proposed by the Labour Court Recommendations.

The Expert Panel Report does not quantify a recommended amount in respect of deferreds. Instead, the Panel has recommended a set of principles with Aer Lingus Limited and DAA (on its own behalf and on behalf of SAA) with regard to an increased payment to deferreds. Based on this set of principles, Aer Lingus Limited calculates that the €30 million once-off payment previously proposed to be paid by it in respect of deferreds would increase by €14 million to €44 million. Aer Lingus Limited has commenced discussions with the IASS Trustee and has received initial confirmation that the Trustee intends to proceed with the changes to the IASS as proposed in the draft plan which it previously proposed to submit to the Pensions Authority. This initial confirmation by the IASS Trustee is based upon (i) the Expert Panel's recommendations in respect of current employees; and (ii) Aer Lingus Limited's calculation of a €14 million increase in the once-off payment to deferreds.

The aggregate effect of the variations recommended by the Expert Panel and discussed with the IASS Trustee is to increase the total once-off payment to be made by Aer Lingus Limited from €140 million to approximately €191 million in addition to implementation costs.

The Expert Panel Report also contains recommendations regarding payments to be made by DAA relating to the IASS. The ratio of payments recommended by the Expert Panel Report in respect of both employers broadly aligns with the split of membership of Aer Lingus Limited and DAA and SAA employees within the IASS.

Aer Lingus Limited recognises that the Expert Panel's recommendation, requiring an additional €50.7 million funding, represents a very significant increase in the amount of once-off payment to be made by Aer Lingus Limited. Notwithstanding this, Aer Lingus Limited reluctantly accepts the increase in payment recommended by the Expert Panel on the basis that the Expert Panel Report represents a definitive solution capable of acceptance by all the parties and which, if implemented in a full and timely manner, could mitigate the significant industrial relations and other risks related to the funding difficulties faced by the IASS. In addition, the recommendations contained in the Expert Panel Report would place pension provision for current and former employees on a significantly improved and more stable footing than would otherwise be the case if the IASS were to be wound up in the absence of an agreed solution.

The recommendations contained in the Expert Panel Report would preserve the staff cost stabilisation measures previously proposed by the Labour Court. These measures mean that, based on current staff numbers and employment terms and assuming no structural changes to Aer Lingus Limited's business, 2017 staff costs will be lower than would otherwise be the case if increments and other staff payments continued in the intervening period. This will deliver a long term benefit to Aer Lingus Limited's cost base.

Next steps

Any implementation of the Labour Court Recommendations, as varied by the Expert Panel Report, is dependent on a series of further very complex steps. These steps include (but are not limited to) the following agreements being reached and approvals being achieved:

- The requirement that each of the sponsoring employers (i.e. Aer Lingus, DAA and SAA) enter into separate agreements with the trade unions representing their employees; it is not sufficient that Aer Lingus Limited reaches agreement with ICTU and the trade unions on its own;
- Formal agreement by the IASS Trustee with the sponsoring employers;
- DAA Board, SAA Board and shareholder approval;
- Trade union member ballot approvals; this applies to trade union members employed by each of the sponsoring employers;
- Agreement between the parties on a comprehensive communications exercise with IASS members;
- The successful conclusion of a range of implementation steps by the IASS Trustee amongst others;
- Aer Lingus Limited Board and Aer Lingus Group plc shareholder approval to make the proposed once-off payments totalling €190.7 million; and
- Approval by the Pensions Authority of the Section 50 benefit reduction and associated proposal to implement the benefit reductions proposed by the IASS Trustee.

Aer Lingus Limited has commenced a phase of intensive engagement with the relevant parties with the objective of implementing the combined Labour Court Recommendations and Expert Panel Report on as timely basis as possible.

Prior to seeking Aer Lingus Group plc shareholder approval, Aer Lingus Limited will engage directly with ICTU and the trade unions to formalise an agreement reflecting the matters set out in the Labour Court Recommendations as varied by the Expert Panel Report, the establishment of an internal dispute resolution mechanism and related matters. Aer Lingus Limited will also engage directly with the IASS Trustee in order to formally confirm its agreement to move forward on the basis of the Labour Court Recommendations as varied by the Expert Panel Report. Aer Lingus Limited recognises that it will be necessary for DAA and SAA to undertake similar steps in order to implement its Labour Court Recommendation as varied by the Expert Panel Report.

Assuming the above formal agreements with the IASS Trustee and ICTU are concluded and other related implementation steps are progressed in a timely manner, Aer Lingus Group plc plans to issue a circular setting out details of the proposed solution and convene an extraordinary general meeting to seek approval from shareholders. While Aer Lingus Limited is committed to seeking a full and final solution that can be implemented in the best interests of all parties, including shareholders and employees, the process is complex and there is no certainty that agreement can be reached between the various parties.

If the required agreements and approvals are achieved and other related implementation steps are progressed in a timely manner, Aer Lingus Limited would then implement the proposed solution including:

- A once-off payment by Aer Lingus Limited of €146.7 million (based upon the Labour Court Recommendations as varied by the Expert Panel Report) would be deployed to IASS members who are still in receipt of income from Aer Lingus Limited as part of their acceptance of the terms of the arrangements. This deployment of funds would be principally achieved through a once-off payment by Aer Lingus Limited to individual pension funds within a new defined contribution scheme. Each employee will have to confirm their formal written acceptance of the arrangements before any payment can be made to them. The pension solution can be considered full and final on an individual basis only when an individual's formal written acceptance is received;
- A once-off payment by Aer Lingus Limited of €44 million would similarly be made available in respect of deferreds under a new defined contribution scheme. Each deferred member will have to confirm their formal written acceptance of the arrangements before any payment can be made in respect of the new scheme. Similar to current employees, the pension solution can be considered full and final on an individual deferred basis only when an individual's formal written acceptance is received; and,

- Aer Lingus Limited would make the cost stabilisation payments outlined in the Labour Court Recommendation in respect of its own employees over the period to 2016.

The IASS Proposal and the related approval and implementation process represent a highly complex range of approvals, consents and agreements involving the IASS Trustee, the Pensions Authority, Aer Lingus Limited, shareholders of Aer Lingus Group plc, DAA, SAA, trade unions, active and deferred members, all of which needs to be achieved in order for the IASS Proposal to be successfully implemented. Given the nature of the proposed reductions in benefits payable by the IASS, it is possible that the implementation of the IASS Proposal could result in disputes, claims and litigation ("Disputes") involving Aer Lingus Limited, DAA, SR Technics, SAA and/or the IASS Trustee. Aer Lingus Limited believes that the risks of Disputes arising should be reduced by the extensive and detailed discussions which took place before the Labour Court (and which culminated in the Interim Recommendation and the Final Recommendation) and the Expert Panel (which culminated in the Expert Panel Report), the detailed approval and implementation process that is required and the requirement for employees and deferred members to confirm their acceptance of the arrangements before any payment can be made in respect of them to the new defined contribution schemes. As the implementation of the IASS Proposal has not yet occurred, Disputes relating to the implementation have not arisen to date. Aer Lingus Limited is aware that certain parties have threatened proceedings against the company in relation to the IASS but these proceedings have not yet been issued. It is not therefore practicable to estimate the financial exposure, if any, to Aer Lingus Limited should Disputes occur.

The Pilots' Scheme

The Interim Recommendation, Final Recommendation and the Expert Panel Report do not relate to the Pilots' Scheme. Aer Lingus Limited is separately engaged in a process of discussion with parties affected by the funding position in the pilots' pension scheme. These discussions were being conducted through the forum of a pilots' pay tribunal but will now involve direct discussions between the parties. It is possible that the convening of an EGM to seek Aer Lingus shareholder approval in relation to the IASS Labour Court Recommendations, as varied by the Expert Panel report could be further complicated by the separate process and discussions required in relation to the Pilots' Pension Scheme.

Notwithstanding Aer Lingus Limited's involvement in discussions to resolve the funding issues in the Pilots' Scheme, it remains Aer Lingus Limited's position, supported by firm legal advice, that it has no legal or constructive obligation in respect of the Pilots' Scheme, other than to continue to pay the fixed rate contributions as set out in the trust deeds of the scheme.

17 Provisions for other liabilities and charges

In the six month period to 30 June 2014, the group utilised €10.4 million of its business repositioning provision. Included in the total utilisation are gainshare payments totalling €6.9 million made to staff on the achievement of agreed annual 2013 Greenfield targets and payments in respect of the Voluntary Severance Programme announced in April 2013 of €2.0 million. The business repositioning provision, has also increased by €1.7 million, of which a further €0.5 million was provided for applicants who had formally accepted the Groups Voluntary Severance Programme as at 30 June 2014 and which was recorded within net exceptional items (see Note 9). The provision for business repositioning remaining at 30 June 2014 was €10.7 million (31 December 2013: €19.4 million).

The carrying value of maintenance provisions at 30 June 2014 was €51.7 million (31 December 2013: €42.6 million).

The carrying value of other provisions at 30 June 2014 was €18.0 million (31 December 2013: €14.7 million).

18 Contingent liabilities and assets

Sublease of hangar facility at Shannon

In December 2012, the Group entered into an agreement for the assignment of its interest in the lease of a hangar facility at Shannon Airport. Under the terms of this arrangement, Aer Lingus has provided a guarantee to Dublin Airport Authority in respect of rents that would otherwise have been payable by the Group under the lease up to 31 July 2021. The Group estimates the maximum amount payable would be approximately €3.2 million in the event that the guarantee was called.

Air travel tax

On 25 July 2012, the European Commission ("EC") issued a decision with regard to the Irish air travel tax. With effect from 31 March 2009, Ireland introduced an air travel tax for flights departing from Irish airports. The tax was set at €2 for destinations within 300km of Dublin airport and at €10 for those exceeding 300km. The EC found that the lower rate constituted unlawful state aid and ordered Ireland to recover €8 per passenger (being the difference between the lower and the higher rate) for each passenger subject to the lower rate from a number of airlines, including Aer Lingus.

In April 2013, the Irish Government commenced High Court proceedings against Aer Lingus seeking recovery of approximately €4 million plus interest. Aer Lingus is contesting these proceedings and has recently issued separate proceedings against the Irish Government on the basis that the air travel tax infringed EU rules on free movement of services. These proceedings seek repayment of €8 per passenger for each passenger subject to the higher rate and/or damages. No amounts have been provided in respect of this matter.

Arrangement relating to Stobart Air

Aer Lingus Regional flights are operated by Stobart Air (formerly known as Aer Arann). However, passengers book their flights using the Aer Lingus website and booking channels. Should Stobart Air fail to meet its obligation to passengers and such passengers seek refunds from their credit card providers, Aer Lingus may have an obligation to reimburse those credit card companies for losses incurred. In such circumstances, Aer Lingus would have a corresponding claim against Stobart Air.

Arising from the Group's investment in the Joint Venture, the Group received guarantees from one of its co-investors concerning the Group's costs and liabilities that may be suffered from the operation of its franchise agreement with Stobart Air. The guarantee is limited to a maximum of €3 million and is expected to expire no later than August 2014.

Litigation and claims
The Group is party to various uninsured legal proceedings. The Group makes provision for any amounts for which it expects to become liable. At 30 June 2014, these provisions were less than the total amounts claimed by plaintiffs because the Group does not believe that it has any liability for the balance and the proceedings are being defended. Further disclosure required by IAS 37 is not made as the Directors believe that to do so could seriously prejudice the conduct and outcome of these proceedings.

19 Called-up share capital, share premium account and other reserves

There was no change in the called-up share capital of the Group in the six-month period to 30 June 2014.

The total number of ordinary shares of €0.05 in issue at 30 June 2014 was 534,040,090 (31 December 2013: 534,040,090) of which 1,303,384 (31 December 2013: 2,029,606) were classified as treasury shares.

In February 2014, following the vesting of awards granted under the Group's FY11 Long Term Incentive Plan (“LTIP”) the vested awards of participants were settled, resulting in 726,222 treasury shares being issued by the Group to LTIP recipients.

20 Finance lease obligations

The Group did not enter into any new finance lease arrangements during the six-month period ended 30 June 2014. During the period, the Group made lease repayments of €33.6 million (six month period ended 30 June 2013: €23.1 million), including interest payments of €2.5 million (six month period ended 30 June 2013: €2.5 million).

21 Property, plant and equipment and intangible assets

During the six-month period ended 30 June 2014, the Group capitalised intangible assets and acquired flight equipment, property and ground equipment with a cost of €26.6 million (six-month period ended 30 June 2013: €21.0 million).

22 Investment in joint venture

During 2012, the Group acquired a 33.33% equity interest in the share capital of Propius Holdings Limited (the “Joint Venture”), the parent company of an aircraft leasing group. The Joint Venture acquired six ATR 72-600 series aircraft in 2013, one in April 2014 and a final such aircraft in July 2014 for onward leasing to Stobart Air. The Joint Venture also acquired two 2007 vintage ATR 72-500 series aircraft in September 2013 for onward leasing to Stobart Air.

In the six months to 30 June 2014, the Group paid €1.3 million in respect of its share of the uncalled share capital. A further US$0.03 million is due to be paid over the remainder of 2014.

The Group’s share of the results of its Joint Venture in the six months to 30 June 2014 was a gain of €0.25 million. All liabilities of the Joint Venture are current in nature. There are no contingent liabilities relating to the Group’s interest in the Joint Venture.

23 Cash generated from operations

	Six months ended 30 June	
	2014	2013
	€'000	€'000
Loss before tax	**(14,142)**	(28,210)
Adjustments for:		
- Depreciation and amortisation	**44,893**	41,257
- Net movements in provisions for other liabilities and charges	**3,611**	(12,095)
- Share of (profit)/loss of joint venture	**(245)**	8
- Net fair value losses on derivative financial instruments	**188**	391
- Adjustment for share awards expense	**(245)**	(890)
- Finance income	**(5,153)**	(5,335)
- Finance expense	**7,214**	7,802
- Other gains- net	**(2,158)**	(4,221)
- Post employment benefit obligations	**933**	895
Changes in working capital		
- Inventories	**130**	220
- Trade and other receivables	**(33,835)**	(23,107)
- Trade and other payables	**218,543**	196,391
Cash generated from operations	**219,734**	173,106

24 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 2014 €'000	As at 30 June 2013 €'000
Cash and cash equivalents	**279,954**	324,974
Bank overdrafts	**-**	(2,941)
	279,954	322,033

25 Financial commitments

(a) Capital commitments

The Group had capital commitments as follows:

	As at 30 June 2014 €'000	As at 31 December 2013 €'000
Contracted for but not provided		
- Aircraft and equipment	**795,601**	794,625
- Other	**7,651**	3,066
	803,252	797,691

Included within capital commitments in respect of aircraft and equipment are amounts denominated in US dollars of $1.08 billion (2013: $1.17 billion). These have been translated at the appropriate period end rate of $1.36 (December 2013: $1.37).

(b) Lease commitments

At 30 June 2014, the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property €'000	**Aircraft €'000**
No later than one year	9,748	58,259
Later than one year but no later than five years	31,305	93,640
Later than five years	32,024	-
	73,077	151,899

Included within aircraft lease commitments are amounts relating to the damp lease agreements executed during the six-month period ended 30 June 2014 in respect of Boeing 757 aircraft.

At 31 December 2013, the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property €'000	**Aircraft €'000**
No later than one year	8,191	55,526
Later than one year but no later than five years	29,760	118,857
Later than five years	38,340	1,586
	76,291	175,969

26 Related party transactions

Details of related party transactions in respect of the year ended 31 December 2013 are contained in Note 35 of our 2013 annual report. The Group continued to enter into transactions in the normal course of business with its related parties during the period. Disclosures in respect of contributions and commitments to the Group's joint venture are described in Note 22. There were no transactions with related parties in the first half of 2014 or changes to transactions with related parties disclosed in the 2013 financial statements that had a material effect on the financial position or the performance of the Group.

27 Events after the reporting period

Mr. Bernard Bot was appointed as Chief Financial Officer (CFO) on the 10 July 2014. He will join Aer Lingus as CFO on 1 September 2014. He has been nominated to the Board of Directors. Mr. Andrew Macfarlane will step down to coincide with Mr. Bot joining Aer Lingus on 1 September 2014.

Mr. Federico Balzola was appointed as Chief People & Change Officer on the 10 July 2014 and will join the business on 1 September 2014.

On 18 July 2014, Mr. Christoph Mueller informed the Board that he will step down from his position as Chief Executive Officer and Director in May 2015.

There have been no other significant events occurring after the reporting period, up to and including the date of approval of the condensed consolidated interim financial statements by the Board of Directors.