

## Preliminary statement of annual results (unaudited) for the year ended 31 December 2011

**Dublin, London, 28 February 2012:** Aer Lingus Group plc (“Aer Lingus”, “the Group”) today announced its unaudited preliminary results for the year ended 31 December 2011.

€million unless otherwise indicated	2011	2010 As Restated <sup>1</sup>	Change	Q4 2011	Q4 2010 As Restated <sup>1</sup>	Change
Passengers ('000s)	9,513	9,346	1.8%	2,192	2,043	7.3%
Average yield per passenger (€)	112.27	107.12	4.8%	106.17	107.34	(1.1%)
Revenue	1,288.3	1,215.6	6.0%	283.4	265.9	6.6%
Operating costs	1,239.2	1,163.1	6.5%	301.0	273.6	10.0%
Operating profit/(loss) before exceptional items	49.1	52.5	(6.4%)	(17.6)	(7.7)	128.2%
Profit/(loss) before tax	84.4	27.2	210.4%	3.8	(38.7)	NM <sup>2</sup>

Note: the consolidated 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.

<sup>1</sup> 2010 comparatives have been restated following a voluntary change in accounting policy adopted in Q4 2011 and applied retrospectively related to IAS 19 “employee benefits”. Following the change, actuarial gains and losses associated with retirement benefit obligations are recognised in the statement of comprehensive income rather the income statement. The previously reported operating results, before exceptional items, were (€2.6) million and €57.6 million for Q4 2010 and full year 2010, respectively.

<sup>2</sup> NM: Not meaningful

€million	31 Dec 2011	31 Dec 2010	Change	31 Dec 2011	30 Sept 2011	Change
Gross cash	894.8	885.0	1.1%	894.8	927.3	(3.5%)
Debt	577.2	535.2	7.8%	577.2	572.7	0.8%

### Full year 2011 highlights

- Operating profit of €49.1 million compared to an operating profit of €52.5 million in 2010
- Full year operating result better than anticipated at start of 2011, primarily due to stronger yields
- Total revenue in 2011 up 6.0% compared to 2010
- Passenger numbers increased in 2011 by 1.8%
- Total yield per passenger increased by 4.8%; short haul yield up 5.5% and long haul yield up 5.2%
- Balance sheet remains robust with gross cash of €894.8 million as at 31 December 2011

### Q4 2011 highlights

- Difficult fourth quarter; year-on-year revenue improvement offset by higher fuel prices and airport charges
- Total quarterly revenue rose by 6.6% supported by increased long haul yields and the absence of weather related disruptions which impacted Q4 2010 revenues
- Quarterly passenger numbers increased by 7.3%; short haul up 8.0% and long haul up 1.4%
- Fuel costs and airport charges increased by 32.0% and 11.7%, respectively, compared to prior year
- Q4 2011 operating loss before exceptional items increased to €17.6 million (Q4 2010 operating loss of €7.7 million)

**Christoph Mueller, Aer Lingus' CEO commented:** *"I am very pleased to report that Aer Lingus generated an operating result of €49.1 million in 2011. This is the second consecutive year of good profitability under our new strategy and demonstrates the success of the changes we have made to our business over the past two years.*

*While the 2011 operating result was lower than that reported for 2010, it was nonetheless significantly ahead of our expectations at the start of 2011 and was achieved against a difficult backdrop of non-controllable fuel price inflation, increased airport charges and challenging demand conditions in our primary markets.*

*Our focus in 2011 was to consolidate the turnaround achieved in 2010. This included refining our demand led network strategy, continuing to drive increased revenue per seat, while remaining competitive, and pushing the Greenfield cost reduction programme. I am pleased to report that we have achieved these objectives."*

**A presentation for shareholders and analysts will be held on 28 February 2012 at 9am. This will be available on a live audio webcast at [www.aerlingus.com](http://www.aerlingus.com).**

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### **Note on forward-looking information**

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

### **Note on unaudited operating and financial information**

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

## Financial summary (unaudited)

	<u>Year ended 31 December</u>			<u>Three months ended 31 December</u>		
	<u>2011</u>	2010	Change	<u>2011</u>	2010	Change
	<u>€million</u>	<u>€million</u> (As Restated) <sup>(i)</sup>		<u>€million</u>	<u>€million</u> (As Restated) <sup>(i)</sup>	
<b>Revenue</b>						
- Passenger revenue						
- Short haul fare revenue	<b>781.0</b>	725.0	7.7%	<b>165.2</b>	154.7	6.8%
- Long haul fare revenue	<b>287.0</b>	276.1	3.9%	<b>67.5</b>	64.6	4.5%
- Retail revenue	<b>168.7</b>	<u>165.1</u>	<u>2.2%</u>	<b>37.2</b>	<u>34.5</u>	<u>7.8%</u>
- Total	<b>1,236.7</b>	<u>1,166.2</u>	<u>6.0%</u>	<b>269.9</b>	<u>253.8</u>	<u>6.4%</u>
- Cargo revenue	<b>43.0</b>	41.3	4.1%	<b>10.9</b>	11.7	(6.8%)
- Other revenue	<b>8.6</b>	<u>8.1</u>	<u>6.2%</u>	<b>2.6</b>	<u>0.4</u>	<u>550.0%</u>
- Total	<b>1,288.3</b>	1,215.6	6.0%	<b>283.4</b>	265.9	6.6%
<b>Operating costs</b>						
- Fuel	<b>288.7</b>	266.2	8.5%	<b>75.4</b>	57.1	32.0%
- Staff costs	<b>260.5</b>	264.0	(1.3%)	<b>64.6</b>	66.4	(2.7%)
- Airport charges	<b>275.7</b>	252.6	9.1%	<b>64.1</b>	57.4	11.7%
- Other operating costs	<b>414.3</b>	<u>380.3</u>	<u>8.9%</u>	<b>96.9</b>	<u>92.7</u>	<u>4.5%</u>
- Total	<b>1,239.2</b>	1,163.1	6.5%	<b>301.0</b>	273.6	10.0%
<b>Operating profit/(loss) before net exceptional items</b>	<b>49.1</b>	52.5	(6.4%)	<b>(17.6)</b>	(7.7)	128.2%
Net exceptional items <sup>(iii)</sup>	<b>37.2</b>	(31.0)	NM <sup>(ii)</sup>	<b>22.4</b>	(29.6)	NM <sup>(ii)</sup>
<b>Operating profit/(loss) after net exceptional items</b>	<b>86.3</b>	21.5	301.5%	<b>4.8</b>	(37.3)	NM <sup>(ii)</sup>
Net finance (expense)/income	<b>(1.9)</b>	5.7	NM <sup>(ii)</sup>	<b>(1.0)</b>	(1.4)	NM <sup>(ii)</sup>
<b>Profit/(loss) before tax</b>	<b>84.4</b>	27.2	210.3%	<b>3.8</b>	(38.7)	NM <sup>(ii)</sup>
Income tax (expense)/credit	<b>(13.2)</b>	15.8	NM <sup>(ii)</sup>	<b>(4.1)</b>	23.5	NM <sup>(ii)</sup>
<b>Profit/(loss) after tax</b>	<b>71.2</b>	43.0	65.7%	<b>(0.3)</b>	(15.2)	(98.2%)
<b>EBITDAR<sup>(iv)</sup></b>	<b>172.8</b>	191.5	(9.7%)	<b>13.3</b>	24.7	(46.1%)
Passengers carried ('000)	<b>9,513</b>	9,346	1.8%	<b>2,192</b>	2,043	7.3%
Average yield (€)	<b>112.27</b>	107.12	4.8%	<b>106.17</b>	107.34	(1.1%)
Retail revenue per passenger (€)	<b>17.73</b>	17.67	0.4%	<b>16.97</b>	16.89	0.5%
Available seat kilometres (ASKs) <sup>(v)</sup> (million)	<b>18,593</b>	18,269	1.8%	<b>4,354</b>	4,154	4.8%
Passenger load factor <sup>(v)</sup>	<b>75.6%</b>	76.1%	(0.5%)	<b>74.0%</b>	72.7%	1.2%
<b>€m</b>	<b><u>31 Dec 2011</u></b>	<b><u>30 Sep 2011</u></b>	<b><u>Change</u></b>	<b><u>31 Dec 2011</u></b>	<b><u>31 Dec 2010</u></b>	<b><u>Change</u></b>
Gross cash	<b>894.8</b>	927.3	(3.5%)	<b>894.8</b>	885.0	1.1%
Debt	<b>577.2</b>	572.7	0.8%	<b>577.2</b>	535.2	7.8%

(i) 2010 comparatives have been restated following a voluntary change in accounting policy adopted in Q4 2011 and applied retrospectively related to IAS 19 "employee benefits". Following the change, actuarial gains and losses associated with post employment benefit obligations are recognised in the statement of comprehensive income rather than the income statement. The previously reported operating results, before exceptional items, were (€2.6) million and €57.6 million for Q4 2010 and full year 2010, respectively.

(ii) NM: Not meaningful

(iii) See note 4 for details

(iv) EBITDAR: Earnings before interest, tax, depreciation, amortisation, aircraft rentals and net exceptional items

(v) Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid codeshare service operated in partnership with United Airlines. These figures differ from those published in Aer Lingus' monthly traffic statistics during 2011 which were based on BOOKED passenger numbers.

## Market review

Following a relatively benign 2010, the European airline industry experienced a more difficult year in 2011. Air passenger demand during 2011 remained unsettled reflecting unease caused by several European governments implementing fiscal austerity measures as well as continuing concerns about eurozone sovereign debt. On the cost side, fuel price inflation was a notable feature of 2011 with the average jet fuel spot price increasing by 40.2% on a year-on-year basis linked to political changes in the Middle East. As a result of these factors, in June 2011, IATA sharply reduced their forecast for global airline profits for 2011 from US\$8.6bn to US\$4bn.

Demand drivers in Aer Lingus' primary Irish market remained subdued in 2011. Full year Irish GDP growth is expected to remain low at 0.8% (source: Irish Central Bank) and Irish unemployment remains high at 14.2% (source: CSO). While passenger volumes passing through the 3 primary airports in the Irish Republic increased by just under 1%, the current level of air passenger numbers using Irish airports is significantly lower than the peak traffic volumes observed in 2008. The Irish market continues to be dominated by non-business, leisure travel (including travel to visit friends and relatives) and as a result, is particularly exposed to adverse trends in personal expenditure levels.

The outlook for the Irish economy in 2012 remains uncertain and Irish GDP growth is expected to stay below 1.0% (source: Irish Central Bank). Most commentators agree that prospects for a full Irish economic recovery are still fragile and will be dependent on external demand, which could be difficult to achieve given the unsteady nature of international capital and consumer markets.

### Aer Lingus actions to address market conditions

Aer Lingus initiated fundamental actions in 2009 and early 2010 to address the difficult market conditions which then faced the Group.

Following an in-depth review of our business model and addressable markets in 2009, Aer Lingus concluded that it needed to revise its strategic direction. Aer Lingus positioned itself as a "value carrier" on the basis that the pure low cost and low fares model is not sustainable while a full service model would not be viable in our key short haul markets. The fundamental elements of this revised strategic approach included better matching of capacity to demand (involving reduction of long-haul capacity and reductions in capacity on over-served short-haul routes), a renewed focus on generating revenue per seat rather than simple maximisation of load factor as well as more emphasis on partnerships and connectivity to deliver on our primary mission of connecting Ireland with the world. In addition, the Group launched a €97 million cost saving programme (known as the "Greenfield" programme).

We continued to pursue this same strategic direction during 2011. In particular, Aer Lingus continued to apply a disciplined approach to our capacity management and we did not copy airlines who added significant extra capacity in the first part of 2011, e.g. European airline ASKs for the first half of 2011 increased by 12.3% compared to the same period in 2010.

Our approach was successful. The modest increase in capacity in addition to the focus on yield and network management enabled us to grow revenue despite a contraction in Irish consumer spending. This growth, coupled with a focus on costs, resulted in a 2011 profit margin well ahead of industry averages (although behind our 2010 margin).

2011 vs. 2010	Capacity (ASKs)
<b>Aer Lingus capacity growth</b>	<b>1.8%</b>
European air carriers capacity growth <sup>1</sup>	10.2%

<sup>1</sup> Source: IATA air transport market analysis

2011 vs. 2010	Revenue
<b>Aer Lingus revenue per passenger growth</b>	<b>4.8%</b>
Irish personal consumer expenditure growth <sup>2</sup>	(2.9%)

<sup>2</sup> Source: Irish Central Bank

	Profitability
<b>Aer Lingus 2011 EBIT margin %</b>	<b>3.8%</b>
European air carriers forecast 2011 EBIT margin % <sup>3</sup>	1.2%

<sup>3</sup> Source: IATA air transport market analysis: forecast for 2011

## Business review

As noted above, in 2011, Aer Lingus continued to pursue the same fundamental actions as in 2010 and the Group's strategic approach has remained unchanged. In particular, Aer Lingus focused on the achievement of a core set of commercial, operational and financial priorities. The successful pursuit of these priorities has consolidated Aer Lingus' return to profitability as well as creating a platform for the future development of the airline. An overview of progress achieved on the key priorities targeted during the year is set out below.

## Customer focus

**2011 priority:** To continue to provide an unrivalled commitment to customer care and use this as a key differentiating factor for Aer Lingus against its close competitors.

**Progress achieved:** The introduction of the "Great care. Great fare." tagline was a key customer relations event in 2011. The tagline first and foremost promotes the feeling of great care that customers experience when travelling with us, and then reassures customers with a great fare proposition. This new tagline replaced the 'Enjoy Your Flight' tagline on all communications.

**Key performance indicators:** Aer Lingus continues to score very positively in customer satisfaction ratings. The Aer Lingus Customer Satisfaction survey takes into account feedback from approximately 2,500 customers each quarter. Based on the last quarter results (i.e. Q4 2011), our commitment to "Great Care. Great Fare." is evident in the scores achieved. On average, 8 in 10 customers claim to be 'very satisfied' with their last flight and with the performance of all staff.

In addition, an average of 7 in 10 are 'satisfied to very satisfied' with the total price of their flight. Testament to these positive experiences, on average, 9 in 10 customers would fly with us again based on their last flight and would also recommend Aer Lingus to their family, friends or colleagues.

*2012 target:* Aer Lingus serves central airports through congested airspace. Although we perform well in several areas (e.g. we are one of the most punctual airlines flying from London Heathrow), there is more we can do to improve our overall on time performance, particularly in the peak summer months.

## Better matching of capacity to demand

### Network management

*2011 priority:* Continue to apply a disciplined, demand led approach to network design in order to maximise margin for the business. Our target was to maintain a broadly stable year-on-year annual capacity deployment with increases in ASKs only to reflect the non-recurrence of the ash cloud and severe weather disruptions which occurred in 2010, together with some tactical network and schedule changes.

*Progress achieved:* During the year, we offset weaker Irish demand by focussing on better performing inbound markets in Northern Europe. We adjusted our network to provide more capacity on routes to high performance, time sensitive markets such as Benelux, Switzerland and Germany. The Group also benefited in 2011 from actions taken in 2010 including a lower level of low seasonal long haul flying from Shannon and reductions in London Gatwick operations.

*Key performance indicators:* In 2011, Aer Lingus gained more exposure toward better performing European markets in order to compensate for difficult conditions in the Irish market. Approximately 47% of passenger bookings are now sourced outside of Ireland. In addition, inter-line traffic (i.e. passenger traffic sourced from other airlines) has steadily increased since 2009 indicating that the Group is successfully using its relationships with partners such as Aer Arann, British Airways, Air France-KLM, United Airlines, JetBlue to drive passenger growth through the core Aer Lingus network.

Passenger traffic trends	2009	2010	Growth vs prior year %	2011	Growth vs prior year %
Inter-line revenues (€m) <sup>1</sup>	44.5	55.1	23.8%	60.5	9.8%
Inter-line passengers numbers ('000s) <sup>1</sup>	629	693	10.2%	789	13.9%
Bookings sourced inside Ireland	56%	55%	(1.8%)	53%	(3.6%)
Bookings sourced outside Ireland	44%	45%	2.3%	47%	4.4%

<sup>1</sup>Excludes intra Aer Lingus network transfers.

In addition, both the Group's long haul and short haul networks continue to be profitable. This is a significant improvement on the situation in 2009 when long haul was significantly loss making and short haul was just broadly breakeven.

Capacity deployment in 2011, as measured by ASKs, increased by 1.8% compared to prior year. The absence of severe ash cloud and weather related disruptions led to increased capacity deployment. However, this increase was partially offset by capacity lost due to the IMPACT cabin crew dispute in early 2011, an earlier than anticipated disposal of a long haul A330 aircraft, reduced capacity at London Gatwick and Shannon as well as some changes to the Group's transatlantic schedule to and from Dublin.

Overall, Aer Lingus succeeded in keeping load factors broadly stable while increasing average yield. This was the key driver of revenue performance in 2011.

*2012 target:* Aer Lingus will continue its disciplined approach to capacity deployment in 2012. The Group will keep capacity broadly flat in 2012 compared to 2011 but will nonetheless seek to drive modest increases in traffic volumes in 2012 through adjustments to frequencies and schedules to better match capacity to latent demand.

### Fleet management

*2011 priority:* Maintain an appropriate fleet composition in order to serve our markets cost effectively and flexibly. The Group also aims to maintain a balance between owned and operating leased fleet in order to have the ability to expand or reduce the fleet in response to the evolving demand environment.

*Progress achieved:* Aer Lingus took several actions during the year to augment our current fleet of modern, economically efficient A320 and A330 fleet. The Group took delivery of four new A320, finance leased, short haul aircraft and disposed of one older A330 long haul aircraft during 2011. Aer Lingus also exercised an option with Airbus to defer an order for three A330 aircraft which were originally scheduled for delivery in 2013 and 2014. Instead, Aer Lingus will take delivery of three A350 aircraft no earlier than 2015, subject to the XWB engine delivery programme.

As a result of the A330 disposal noted above, the long haul fleet decreased by one aircraft. Aircraft numbers in the short haul fleet remained stable with three A321 operating leased aircraft returned to the lessor during the year while one A320 aircraft is currently held for sale. These aircraft were replaced by the four newly delivered A320s noted above.

As at 31 December 2011, Aer Lingus had 18 operated leased short haul aircraft and 19 short haul aircraft which were either wholly owned or held through finance leases. The Group had 7 wholly owned or financed leased long haul aircraft as at the end of 2011.

The Group will introduce two leased A319 aircraft into the fleet in early 2012 to replace operating leased A320 aircraft exiting the fleet. The economics associated with the A319 aircraft type are appropriate for some of the lower demand routes within the Aer Lingus network and should drive further operating and cost efficiencies. Aer Lingus has no current plans to significantly change short haul capacity deployment in 2012. However, two additional leased A319s will join the fleet in 2013 to replace aircraft which are scheduled to exit the fleet as their operating leases expire.

*Key performance indicators:* Our young fleet age continues to help us drive a competitive unit cost position. Our average fleet age reduced from 6.55 years to 6.18 years between December 2010 and December 2011. In addition, annual average fleet utilisation improved during the year from 9.5 to 9.8 block hours per aircraft per day. This represents an increase in utilisation of 1.4% and 10.8% in short haul and long haul, respectively. These average annual utilisation levels reflect the inherent seasonality of our business with much higher utilisation achieved in the peak summer months.

*2012 target:* Aer Lingus will seek to maintain the current balance between operating, owned and finance leased aircraft. At present, the Group does not have any short haul aircraft order positions. This is not currently an issue given the relatively young age of the short haul fleet. However, in 2012, Aer Lingus will begin exploring its options for future short haul deliveries. The Group is scheduled to start taking delivery of A350 long haul aircraft from 2015, subject to the XWB engine delivery programme.

## Focus on yields

### Revenue per passenger

*2011 priority:* Continue to increase revenue per seat as a cornerstone of Aer Lingus' commercial strategy while recognising that our principal competitor is Europe's largest low cost / low fares airline.

*Progress achieved:* The installation of a newly enhanced revenue management system, incorporating an updated Sabre module, has improved our ability to forecast demand and optimise revenues. Tactical capacity management has supported the continued growth in revenue per seat. In addition, we have refined our product offering to offer fare families that now focus explicitly on different market segments:

Offering	Description
Low	<ul style="list-style-type: none"> <li>Enables Aer Lingus to compete on price.</li> <li>Provides passengers with free check-in and assigned seating.</li> </ul>
Plus	<ul style="list-style-type: none"> <li>Enables Aer Lingus to compete on value.</li> <li>Provides passengers with a modular product offering including checked bag, free advance seat selection &amp; Gold Circle points.</li> </ul>
Flex	<ul style="list-style-type: none"> <li>Enables Aer Lingus to target time sensitive passengers.</li> <li>Provides passengers with flexibility and components are targeted at the business traveller, e.g. two checked bags, lounge access and refundable and transferable ticket.</li> </ul>

*Key performance indicators:* Our primary revenue management KPI is revenue per seat. As a result of measures taken in 2011, we achieved a 5.5% increase in average fare per short haul seat and a 3.9% increase in average fare per long haul seat. On a total network basis, this represents a 4.7% increase in average yield per seat in 2011.

Fare revenue per seat (€)	2009	2010	Growth vs. prior year %	2011	Growth vs. prior year %
Short haul	56.96	62.63	10.0%	66.09	5.5%
Long haul	187.29	238.58	27.4%	247.99	3.9%
Total network	70.58	78.62	11.4%	82.31	4.7%

*2012 target:* Aer Lingus will target continued improvements in yield per seat where conditions allow. Yield performance to date has been supported by the change in pricing policy and augmented by the introduction of new technology. Further yield improvements will build on these foundations but will be challenging given current soft demand conditions.

### Retail developments

*2011 priority:* Further develop the appeal of Aer Lingus' retail offerings and to build on the foundations established in recent years. The Group's continuing objective is to differentiate Aer Lingus through the range, value and quality of its discretionary retail offering and to provide customers with convenient travel options for which they would be willing to pay. This approach is designed to allow Aer Lingus to meet the needs of different segments of its passenger base and maintain a broad appeal in our market.

*Progress achieved:* In 2011, Aer Lingus refreshed its focus on retail in order to improve revenue and margin. The Group improved its lounge access product, initiated an improved advance seat selection option for passengers and re-modelled its inflight catering choices under the "Sky-Deli" brand. Also, we have improved the manner in which we incorporate our retail offering into the on-line booking flow. Our new Aer Lingus mobile app has proven highly popular. This app has facilitated an improved passenger check-in experience, improved customer communication and provides the Group with a flexible platform for further retail innovation.

*Key performance indicators:* Retail revenue per passenger declined by (4.1%) and (1.2%) in the first and second quarters of 2011, respectively. This decline reflected a number of factors including a lower number of passengers paying for checked baggage (consistent with weaker performance on leisure routes). However, retail spend per passenger increased by 6.1% in the third quarter and this gain was held in the fourth quarter. This is an encouraging early sign of progress with our new retail initiatives.

The progression in unit retail revenue since 2009 has been positive:

€	2009	Growth vs. prior year %	2010	Growth vs. prior year %	2011	Growth vs. prior year %
Retail revenue per passenger	16.75	11.9%	17.67	5.5%	17.73	0.4%

*2012 target:* Aer Lingus will seek to further drive retail revenue per passenger in 2012. The challenge will be to continue to innovate in order to provide passengers with the customised additional features they would like at affordable prices. However, the retail platform developed in the past number of years provides a good base for future developments.

## Focus on cost and operational efficiencies

*2011 priority:* Aer Lingus operates in a challenging market and competes directly with one of Europe's leading low cost carriers. In the medium term, large parts of our cost base are outside our ability to control, including fuel, airport charges and enroute charges. In addition, demand conditions are likely to remain soft for the foreseeable term. Against this backdrop, Aer Lingus will have to continue to implement measures to manage the controllable element of its cost base as rigorously as it can.

*Progress achieved:* Aer Lingus is in the late stages of implementing the "Greenfield" cost reduction programme. The primary programme goal in 2011 was the implementation of non-staff savings across all areas. Significant cost reduction initiatives in 2011 include fuel management, strategic sourcing, and "lean initiatives" in maintenance & engineering.

*Key performance indicators:* As at 31 December 2011, Aer Lingus had achieved total Greenfield cost savings with an annual value of €84.3 million. This outcome is €3.8 million ahead of our last update to market in November 2011 when we estimated that the Group would achieve total savings with an annual value of €80.5 million. The majority of savings achieved during 2011 relate to non-staff items and include initiatives relating to sourcing of catering stock, fuel efficiency savings, and ground handling process improvements.

€million	Annual value of savings achieved at end of 2010	Annual value of savings achieved in year during 2011	Total savings as at December 2011
Staff	50.0	5.7	55.7
Non-staff	3.9	24.7	28.6
<b>Total</b>	<b>53.9</b>	<b>30.4</b>	<b>84.3</b>

Unit cost per ASK progression is set out below and highlights the continuing cost challenges faced by the business:

euro cent	2009	2010	2011
Operating cost per ASK incl. fuel	6.06	6.37	6.66

*2012 target:* The Group continues to explore new cost saving initiatives and to target full delivery of the balance of the €97.0 million total saving target in 2012 as well as to retain the benefits delivered by Greenfield for years beyond 2012.

### Strategy

In 2011, Aer Lingus continued to apply the same strategic approach as in 2010 and there will be no substantial changes in this strategy in 2012. However, Aer Lingus recognises that it must address the longer term challenges of creating sustainable shareholder value against the backdrop of intensely competitive markets and to also achieve revenue stability which preserves profitability through the aviation and economic cycles.

In addressing these challenges, Aer Lingus believes that growth through bilateral relationships with selected partner airlines should be prioritised as the primary means to achieve profit improvement with minimised cost and risk.

As part of this strategy, the Group will in 2012 further study the viability of a North Atlantic bilateral relationship using anti-trust immunity, i.e. the legally permissible full coordination between Aer Lingus and another airline on scheduling, pricing, revenue management, marketing and sales on selected routes. In this regard, Aer Lingus' previously described neutrality is a key advantage for the Group in developing and deepening its bilateral relationships. As noted on previous occasions, Aer Lingus will not prioritise alliance membership in the short term unless the conditions and costs of alliance membership change significantly.

### 2012 outlook

As noted earlier, we expect Aer Lingus' key markets to remain very competitive in 2012. The Group will keep capacity deployment broadly flat in 2012 although there will continue to be scheduling and frequency adjustments to the Aer Lingus network in accordance with the Group's demand led planning strategy. For example, Aer Lingus will add two new destinations to its summer 2012 schedule (Verona and Stockholm) as well as one new route, i.e. Cork - Brussels. In addition, the Group will increase frequency where this is supported by underlying passenger demand.

Aer Lingus is likely to be exposed to higher non-controllable costs in 2012. In particular, fuel prices are expected to remain at their current levels for the foreseeable term. While the Group continues to put in place hedging protection, the 2012 fuel bill is likely to be significantly higher than in 2011 as the cost of protection adjusts to revised market expectations about the future trajectory of fuel prices.

Aer Lingus will need to address other issues in 2012. For example, the Group's fixed cost base is under-utilised and there is scope to improve staff engagement for the benefit of the business generally. In addition, it is crucial that Aer Lingus sustains the benefits delivered to the business by the Greenfield programme, post 2012. We also need to develop sustainable pension arrangements in respect of future staff service.

Our expectation for 2012 is that the Group will remain significantly profitable albeit below 2011 levels. This will require Aer Lingus to drive increased passenger volumes and to also generate a higher average yield per seat across the network. Yield performance in 2010 and 2011 was assisted by the change in pricing policy augmented by the introduction of new technology. While the Group has derived important revenue management lessons as part of this process, further significant increases in average yield will be difficult to achieve.

### Review of 2011

Despite a difficult start to the year due to economic conditions and operational disruptions, Aer Lingus traded strongly in the second and third quarters of 2011 (i.e. the key summer travel period) when compared to prior year. While revenues increased in the fourth quarter, the Q4 operating result was adversely impacted by increased costs, primarily fuel prices and airport charges.

Trading in the first quarter of 2011 benefited from actions taken at the end of the first quarter of 2010 to reduce loss making capacity at the Group's Gatwick base as well as the suspension of Shannon long haul winter season flying, which had been uneconomic. Profit comparisons between Q1 2011 and 2010 were assisted by the effect of the Greenfield cost savings programme which began at the end of Q1 2010. While quarterly load factor decreased by 2.5 percentage points to 66.6%, average yield per passenger was up 9.0% compared to Q1 2010.

However, these positive factors were more than offset by the substantial losses and disruption caused by the IMPACT cabin crew dispute at the start of this year as well as difficult demand conditions, particularly on leisure routes from Ireland. As a result of these factors, the Q1 2011 operating loss of €3.7 million represented a 41.7% increase compared to prior year (Q1 2010 operating loss of €7.9 million).

Compared to Q1 2011, trading conditions improved significantly in Q2 2011 as the airspace closures caused by the Icelandic volcano in 2010, did not recur. In addition, we continued to benefit from refinements to our yield management approach and also from the Greenfield programme. Average yield per passenger in the quarter continued to trend positively with an increase of 6.6% over prior year. Q2 2011 load factor across the Aer Lingus network decreased by 2.6 percentage points to 74.1%.

The settlement of the cabin crew industrial dispute was followed by the threat of industrial action by pilots which damaged long haul bookings in general, and high yielding business class bookings in particular. Despite this threat of disruption, there was a 37.8% improvement in the year-on-year Q2 operating profit to €25.9 million (Q2 2010 operating profit of €18.8 million).

However, spot fuel prices began to rise significantly from the second quarter of 2011 onwards due to political change in the Middle East. The negative impact of this fuel cost inflation was partly mitigated during the key summer months as Aer Lingus benefited from the protection provided by the Group's fuel hedging programme. However, the Group's performance over the later months of 2011 was gradually impacted by higher fuel costs as the level of hedge protection progressively decreased.

Aer Lingus continued to perform positively over the key summer months of 2011. The Group maintained its positive year-on-year yield momentum with average yield per passenger across the Aer Lingus' network up 4.0% over Q3 2010. In addition, Q3 2011 load factor increased by 1.0 percentage points to 84.4%. As a result of these favourable trends, Aer Lingus had a strong third quarter, generating an operating profit of €4.6 million which was significantly ahead of prior year (Q3 2010 operating profit of €9.2 million).

The Group's positive revenue performance continued in Q4 2011 with trading supported by the absence of weather related disruption which had impacted Q4 2010. Total revenue increased by 6.6%. Average quarterly yield per passenger was down slightly by 1.1% compared to prior year but the quarterly load factor increased by 1.2 percentage points to 74.0%.

However, cost pressures escalated in Q4 driven primarily by a 32.0% increase in fuel costs (due to the decreasing fuel hedge protection noted above) and 11.7% rise in airport charges in the quarter. While Aer Lingus' rolling fuel hedging programme mitigated some of the fuel price inflation during the summer peak of 2011, the level of this hedge protection decreased during the last quarter of 2011 and the Group's fuel cost for Q4 2011 reflected the higher jet fuel prices that followed political change in the Middle East in the early part of 2011. As a result of these factors, the operating loss for Q4 increased to €17.6 million (Q4 2010 operating loss of €7.7 million).

#### **Project costs**

As noted in our results for the first half of 2011, very substantial work was required in order to improve our IT function and to support our cabin crew and pilot rostering projects. It was necessary to buy in significant support from external sources to underpin the transition needed in IT and other parts of the business as Aer Lingus did not have the capability to undertake all of these projects internally. The majority of these third party costs have now discontinued.

In total in 2011, the Group incurred approximately €1.6 million in non-recurring project costs, primarily related to the IT transition and rostering projects noted above.

#### **Partnerships**

The Aer Lingus Regional service, operated by our franchisee Aer Arann, experienced a successful second year of service in 2011 and is now an important and established part of the Group's network. The franchise operation carried almost 758,000 passengers in 2011, an increase of 87.8% compared to 2010. This franchise arrangement enables Aer Lingus to earn a franchise fee and to offer a service on certain routes, the economics of which are better suited to turboprop rather than jet aircraft. For this reason, Aer Lingus allocated some Cork based traffic to the franchise operation. In addition to fees receivable from the operator, the Aer Lingus Regional franchise generates transatlantic connections from regional UK markets.

The extended code share with United Airlines also had a second successful year of service in 2011 and both parties agreed in late 2011 to extend the initial term of operation. Both Aer Lingus Regional services and the service between Washington and Madrid continue to trade in line with the Group's expectations.

Aer Lingus' partnerships and bilateral relationships represent a crucial component of the Group's business model and strategy. The financial contribution from routes operated in partnership with other carriers to key central destinations and hubs (e.g. London Heathrow, Amsterdam and Chicago O'Hare) constitute a core component of the Group's overall profitability.

Aer Lingus' neutrality combined with its freedom to partner (i.e. lack of restrictions imposed by alliance membership) with a wide range of other airlines is essential to ensure Aer Lingus' continued viability as an independent profitable carrier and its future financial and commercial development.

#### **Balance sheet strength**

Aer Lingus continues to be a valuable and profitable business. Gross cash balances as at 31 December 2011 were €894.8 million. There is no general corporate debt. The Group's borrowings are all associated with aircraft asset purchases. Aer Lingus' debt maturity profile is spread over several years to 2023.

In addition to this substantial balance sheet strength, Aer Lingus owns significant assets which are not recognised in its financial statements, including an attractive slot portfolio at London Heathrow and Dublin airports and a globally recognised brand.

#### **Pensions**

Pensions remain the most significant legacy issue affecting the Group. Our staff have concerns about the security of their retirement and our shareholders are concerned about the impact pension issues may have on the business. Aer Lingus' consistent position has been and remains that it has no financial responsibility for any deficits in its General Employee or Pilots schemes.

Aer Lingus participates in two main occupational pension schemes, one for its pilots and one multi-employer scheme (the Dublin Airport Authority plc and SR Technics being the other sponsoring employers) for other employees who fall within the category of "General Employees" (collectively the "Irish Pensions Schemes"). Although similar rules apply to both Irish Pension Schemes, the contribution rates and benefits differ between the schemes. The trust deeds governing the Irish Airlines (General Employees) Superannuation Scheme ("the IASS") and the Irish Airlines (Pilots) Superannuation Scheme ("the Pilots' Scheme") to which the Group contributes, state respectively 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 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 and deed rules. At 31 December 2011 it had 14,680 members, comprising 4,519 active members, 5,344 deferred members and 4,817 pensioners. Approximately two thirds of members are current or former employees of Aer Lingus. The statutory Minimum Funding Standard ("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. At 31 December 2011, the IASS was estimated by the trustee's actuary to have an MFS deficit of approximately €700 million (2010: deficit approximately €400 million). Approximately two thirds of any deficit is attributable to employees or former employees of Aer Lingus. The estimated deficit has increased significantly over the course of 2011, primarily due to increases in the estimated cost of purchasing annuities for pensioners in a wind-up and a decline in IASS asset values.

Aer Lingus 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 funding commitments, the trustees will be required to take measures to improve the IASS's financial position. 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 the Group could become involved in industrial disputes with its employees, which could 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 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 the Group has received (that such a challenge is unlikely to succeed), a Court were to find against the Group in any such litigation, significant or very 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 the Group should such claims be made and succeed.

The funding shortfall in the IASS and the related potential reduction in pension benefits for employees represent a significant employee relations issue for Aer Lingus. For this reason, the Group is in continuing discussions with parties involved in the IASS under the auspices of the Labour Relations Commission ("LRC"). These parties include trade unions representing Aer Lingus members of the IASS as well as DAA and representatives of DAA staff.

The current LRC discussions have two principal components. Firstly, the parties are exploring options to address the funding position of the IASS. Options under consideration include the possible freezing of the Scheme to reduce the risk that the deficit may increase further in the future as well as possible changes to the IASS investment strategy. These changes may include the purchase by the IASS of sovereign annuities or similar products to improve the expected return earned by the IASS on its investments and so reduce the deficit. These measures seek to preserve a higher level of pension benefit for IASS members than would be the case if this scheme were wound up, which Aer Lingus believes is inevitable in the absence of corrective action.

The funding of the IASS, including the potential freezing of the scheme or changes to its investment policy remain matters for the IASS Trustees alone. Any proposals which result from the current discussions can only be implemented by, and with the consent of, the Trustees.

The second component of the current discussions is to explore options for the provision of viable pension arrangements for future service. These discussions are based on the assumption that all parties will reach agreement that the IASS should be frozen so that no future contributions would be made to the scheme. In such circumstances, Aer Lingus and DAA will need to establish new pension arrangements for future service. Aer Lingus believes that the best interests of all parties will be served by creating separate pension schemes for DAA and Aer Lingus employees for the future. The discussions are complex and at an early stage. No agreements have yet been reached and negotiations continue.

At 31 December 2011, the Pilots' Scheme had 895 members, comprising 431 active members, 118 deferred members and 346 pensioners. The most recent triennial actuarial valuation performed by the trustee's actuary showed an MFS deficit at 31 March 2009 of €17m. As part of the Greenfield agreements negotiated in late 2009 under the auspices of the LRC, Aer Lingus 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.

The latest available information is that the Pilots' Scheme was estimated to have an MFS deficit of €70 million as at 31 October 2011. The Group's position that it has no responsibility for the deficit in the 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 the Group has received (that such a challenge is unlikely to succeed), a Court were to find against the Group in any such litigation, significant or very 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 the Group should such claims be made and succeed. The Group is not in formal discussions with its pilots' representatives about the deficit in the Pilots' Scheme.

## **Full year 2011 financial review**

Please note that the 2010 comparatives have been restated following a voluntary change in accounting policy adopted during 2011 and applied retrospectively related to IAS 19 "employee benefits". Following the change, actuarial gains and losses associated with post employment benefit obligations are recognised in the statement of comprehensive income rather than the income statement. The previously reported operating profit, before exceptional items, was €7.6 million for full year 2010.

### **Introduction**

In 2011, Aer Lingus continued to follow the same strategic path which it pursued in 2010 with no significant change in the fundamental measures being implemented. The Group's capacity plan remained stable compared to 2010, when adjusted for the non-recurrence of ash cloud and severe weather disruption in 2010.

Aer Lingus reported an operating profit, before net exceptional items, of €9.1 million (2010: profit of €2.5 million) for 2011. However, the Group recorded a net profit before tax for the year of €34.4 million (2010: profit of €27.2 million). This increased pre-tax profit was due to exceptional items, which comprised a €7.2 million credit in 2011 compared with a €31.0 million charge in 2010.

### **Passenger revenue**

Passenger revenue for the year was 6.7% ahead of 2010 at €1,068.0 million (2010: €1,001.1 million), with passenger numbers increasing by 1.8% to 9.51m (2010: 9.34m). Average fare per passenger increased by 4.8% to €12.27 (2010: €107.12). Total passenger load factor decreased by 0.5 points to 75.6%.

Aer Lingus previously estimated that 5.6% of planned capacity was lost in 2010 due to the impact of ash cloud and weather related disruption. The Group increased capacity deployment by 1.8% in 2011. This increase reflects the non-recurrence of ash and weather disruption in 2011 partly offset by lost capacity attributable to the IMPACT cabin crew dispute in January and February 2011, a reduction in some winter flying in 2011, and the earlier than originally targeted sale of an A330 aircraft which also affected annual capacity levels.

#### **Short haul**

Total short haul passengers carried in 2011 increased by 2.1% to 8,616,000 and average short haul yield increased by 5.5% or €4.73 to €90.65 (2010: €85.92). Short haul fare revenue was €781.0 million, (2010: €725.0 million), an increase of 7.7%.

Short haul capacity, measured by ASKs increased by 2.6%. This was because there was no repeat of the closure of northern European airspace in H1 2011 compared with 2010 or the weather related disruptions in January, November and December 2010. However, this increased capacity was offset by reduced capacity at London Gatwick in Q1 2011 and the effect of the IMPACT cabin crew dispute. Capacity utilisation, measured by revenue passenger kilometres (RPKs) increased by 2.2% resulting in short haul load factor decreasing by 0.3 points to 74.6%. This decline reflects a number of factors including continuing weakness on certain leisure routes partly offset by strong performances on key time sensitive markets where Aer Lingus has focused on serving increasing passenger demand.

In general, time sensitive and business oriented routes performed well in 2011. Passenger revenues from services to Germany, France, Benelux and Switzerland increased on a year-on-year basis. These performances helped support weaker year-on-year revenue development on routes to markets such as Spain, Portugal and some Central European destinations.

Short haul yields in 2011 increased by 5.5% over 2010. This positive result was not driven by simplistic fare increases but rather reflects a more sophisticated approach to yield management. This approach includes the deliberate re-positioning of Aer Lingus to serve performing European passenger markets, exposure to a higher yielding multi channel distribution strategy and, as explained earlier, the re-definition of our product offering to now focus explicitly on different market segments.

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

#### **Long haul**

Aer Lingus implemented significant changes to its long haul network in late 2009 with the objective of restoring this important part of the Group's business to profitability. Total long haul passengers decreased by 1.2% to 897,000. However, average long haul yield increased by 5.2% or €15.89 to €19.96 (2010: €304.07) in 2011. This was due in part to higher business class occupancy.

In 2011, approximately 21% of long haul passenger revenues represented inter-connecting passengers from other airlines with which Aer Lingus has inter-line agreements.

There was no significant net movement in capacity compared with 2010, with ASKs remaining flat at 6.1 million (2010: 6.1 million). This reflects the non-recurrence of the ash cloud related airspace closures in H1 2011 or the weather related disruptions in January, November and December 2010 offset by reduced capacity deployment in Shannon during the first three months of 2011 and the effect of the IMPACT cabin crew industrial action. However, there were some changes to the Group's transatlantic schedule to and from Dublin. RPKs decreased by 1.0% resulting in long haul load factor decreasing by 0.8 points to 77.6%.

During H1 2011, one owned A330 aircraft was sold, realising a profit on disposal of €0.9 million which has been recorded as an exceptional item.

#### **Retail revenue**

Total retail revenues increased by 2.2% on 2010 to €168.7 million. This increase was the result of the additional passengers carried and a slight increase in per passenger spend. Average retail spend per passenger increased by 0.4% to €17.73. This relatively low increase was due to changing passenger spending patterns, including a lower volume of checked baggage, coupled with lower volumes on leisure routes which in turn drove a lower level of checked baggage revenues. The most significant ancillary revenue products continue to be in-flight sales revenue, baggage fees, online booking fees, seat selection fees and commissions.

As noted earlier, the Group continued to develop its retail offering in 2011 in order to improve the return from the existing discretionary retail offering and to align this offering more closely with customer demand. Aer Lingus successfully re-launched its pay-to-use lounge access product, initiated an improved advance seat selection option for passengers and re-modelled its inflight catering choices under the new "Sky-Deli" brand.

#### **Cargo**

Aer Lingus' cargo business is an important component of the Group's business offering and a key contributor to profitability. Aer Lingus' strategy is to carry cargo on both long haul and short haul routes. Aer Lingus does not operate dedicated freighter aircraft, but instead utilises the available hold capacity of the passenger aircraft fleet.

Total cargo revenue increased by 4.1% to €43.0m (2010: €41.3m). This increase was driven by a rise in average yield which offset the lower tonnage carried in 2011. Total tonnage in 2011 decreased by 15% compared with 2010. The decline reflected the effect of the IMPACT cabin crew industrial action in H1 2011 and a decline in air freight demand in H2 2011 due to the overall global slowdown in trade. Short haul tonnage decreased by 23% to 6,817 tonnes (19% of which is associated with the shift of volume to domestic trucking); and long haul tonnage decreased by 12% to 20,841 tonnes.

Volumes measured in revenue tonne kilometres ("RTKs") were down 10% in 2011. Revenue per RTK was 16% higher. This includes higher fuel surcharges which increased with the general rise in fuel costs. Increasing volumes of medical and pharmaceutical goods, which require specialised support and handling, also had a positive effect on yield.

## Operating costs

Total operating costs, before net exceptional items, increased by 6.5% to €1,239.2 million (2010: €1,163.1m). This increase was primarily due to higher fuel costs and higher airport charges. These costs together represent approximately 46% of Aer Lingus' cost base and increased significantly during 2011. In the case of fuel, the increased cost was partly offset by the relative strength of the euro versus the US dollar. Aer Lingus also incurred €7.3 million in aircraft and crew hire-in costs arising from the IMPACT cabin crew dispute which affected operations in January and February 2011 together with €1.6 million in non-recurring, project costs.

The average US dollar to euro exchange rate in 2010 and 2011 was 1.33 and 1.40, respectively. The average UK sterling to euro exchange rate in 2010 and 2011 was 0.86 and 0.87, respectively.

Fuel represented 23.3% of total costs in 2011 (2010: 22.9%). US\$ denominated fuel costs in 2011 increased by 14.7% to US\$404.1m (2010: US\$352.3m) due to a 3.4% increase in block hours flown to 154,829 (2010: 149,809) and a significant increase in the average cost of fuel which, including into plane fees, was \$937/tonne (2010: \$819/tonne). The average cost of fuel increased significantly from Q2 2011 following the impact of political changes in the Middle East. However, this additional fuel cost was offset in part by the positive impact on fuel costs of a weaker average US\$ during 2011. As a result, the euro denominated cost of fuel in 2011 increased by €2.5m (8.5%) to €88.7m (2010: €66.2m).

Staff costs have been affected by the voluntary change in accounting policy explained above. Details of the change are set out in the "voluntary change in accounting policy" note in the basis of preparation section of the financial statements. Staff costs represented 21.0% of total costs in 2011 (2010: 22.7%) and decreased by 1.3% or €3.5m compared to prior year. This reduction reflects a number of factors. Firstly, approximately €4 million of 2010 savings did not recur in 2011. These once-off savings included unpaid leave in 2010 taken both under the Greenfield programme and during the 2010 ash cloud disruption. However, these non-recurring savings were offset by approximately €5 million full year impact of staff exits in 2010. Further savings initiatives implemented in 2011 reduced staff costs by an additional €2.5m compared to prior year.

Airport charges, which represented 22.2% of total costs in 2011 (2010: 21.8%), increased by 9.1% to €275.7 million (2010: €252.6 million). This was due principally to increased charges levied at Dublin and London Heathrow airports and the increased volume as the number of flights in 2011 increased by 3.4% to 70,458. Airport charges per ASK increased by 7.7%. En-route charges increased by 6.6% to €59.7 million (2010: €56.0 million) due to the increased number of flights in 2011 in view of the non-recurrence of the volcanic ash disruption or weather related disruptions.

Maintenance costs increased by 7.0% to €58.1 million (2010: €54.3 million), primarily due to a 3.4% increase in block hours flown and additional engine contract costs associated with the early hand back of three A321s in H1 2011.

Depreciation decreased by 8.7% to €79.8 million (2010: €87.4 million). This reflects a number of movements including depreciation charges associated with four A320 aircraft purchased in H1 2011 offset by the effect of the disposal of an A330 aircraft, the classification of an A320 as held for sale and the charge for the accelerated depreciation of the retrofits of two A330s in 2010 which did not recur in 2011.

Aircraft operating lease costs decreased by 14.9% to €43.9 million (2010: €51.6 million) due to the return of three leased A321 aircraft to their lessors during the period and the positive impact of a weaker average US\$ during 2011.

Distribution costs decreased by 1.7% to €46.7 million (2010: €47.5 million) due to a decrease in advertising and marketing spend offset in part by higher credit card handlings fees resulting from higher passenger revenues and bookings.

Ground operation/other operating costs increased by 18.1% to €129.1 million from €109.3 million in 2010. The increase is primarily due to two factors: (i) the incurring of aircraft and crew hire in costs and additional flight cancellation costs arising from the IMPACT cabin crew dispute in January and February 2011 and (ii) as noted in the Business Review, Aer Lingus also incurred an estimated €1.6 million of non-recurring project costs in 2011 associated with short term business improvement projects.

In 2010 and 2011, other gains and losses related to net gains arising on the maturity of US\$ and Sterling currency contracts. By way of background, Aer Lingus generates the majority of its revenues in euro. The Group also reports its financial results in euro. However, a significant portion of the Group's cost base is denominated in US\$ (e.g. fuel, aircraft hire and certain elements of maintenance expenditure). In addition, the Group also earns sterling revenues which usually exceed the level of costs denominated in that currency and Aer Lingus typically has an annual Sterling surplus. Aer Lingus uses foreign exchange contracts to manage these foreign currency exposures. At the start of 2011, we had hedged 86% of our US\$ requirement at an average rate of 1.43. In addition, we had hedged 85% of our Sterling surplus at an average rate of 0.85.

In 2011, the average US\$ hedged rate of 1.43 of maturing US\$ contracts compared favourably to the average actual US\$ exchange prevailing in the spot market of 1.40. Also, the average actual Sterling hedged rate of 0.86, relating to contracts maturing during 2011, compared to the average actual Sterling spot rate of 0.87. These differences resulted in a net gain of €3.0 million to Aer Lingus in 2011.

In 2010, the Group reported a significantly higher net gain of €25.8 million on the maturing of currency contracts. This was mainly because the favourable difference between the average US\$ hedged rate and average actual spot rate was much greater than in 2010, i.e. the average US\$ hedged rate of 1.48 compared to a spot rate of 1.33. The average hedged rate of 0.86 on our maturing Sterling contracts compared to an average actual spot rate of 0.86 for 2010.

## Greenfield

The Group achieved new savings with an annual value of €30.4 million in 2011 under the Greenfield programme, of which €24.7 million were non-staff costs savings. The full year effect of these savings coupled with savings achieved in 2010 corresponds to €34.3 million at the end of 2011. The Group continues to implement new cost saving initiatives and to target full delivery of the balance of the €7 million total saving target in 2012.

## Net exceptional items

2011 net exceptional items includes a gain of €1.0 million on the surrender of our leasehold interest in our Head Office Building to the DAA plc. Net exceptional items also includes a release of amounts from cash flow hedging reserve related to capital foreign exchange hedges originally associated with planned purchase of three A330 aircraft and exercise in Q1 2011, of an option to convert those orders to three A350 aircraft. The profit was from the closure of the hedges which are no longer needed.

Net exceptional items also include a credit of €3.1 million as we now expect a lower level of redundancies under the Greenfield programme than previously anticipated in our provision as well as a charge of €3.2 million following the classification of an A320 aircraft as held for sale. The charge reflects the write-down in the aircraft's book value to its estimated fair value less costs to sell.

Finally, exceptional items includes a provision release of €4.5 million relating to a revision to the terms and conditions of membership of the Aer Lingus frequent flyer programme.

#### **Finance income and expense**

Finance income and expense have been affected by the voluntary change in accounting policy noted above. Notional income or interest associated with post employment assets and liabilities are now recognised as a component of finance income and expense. Net finance expense for the year was €1.9 million (2010: income €5.7 million). Finance expense of €17.3 million increased by €0.1 million (0.6%) reflecting the draw down of finance leases relating to the acquisition of four A320 aircraft during the year offset by the positive impact of a weaker average US\$ during 2011. Average debt during 2010 was €560 million (2010: €554 million).

Finance income of €15.4m (2010: €22.9m) decreased by 32.7% reflecting the impact of lower interest rates in 2011 compared to 2010 (i.e. 1.6% in 2011 compared to 2.4% in 2010) and lower average cash balances which amounted to €29m during the year (2010: €49m).

#### **Tax charge**

There was a tax charge for the year of €13.2 million (2010: €15.8 million credit) arising from an decrease in deferred tax assets due to profits incurred during the year. No cash corporation tax is payable in respect of 2011. The tax charge of €13.2 million represents an effective tax rate of 15.6%. The Group's corporation tax losses carried forward as at 31 December 2011 amounted to €24.9 million.

#### **Cash flow, cash and debt**

The Group had a free cash outflow in 2011 of €24.9 million. Significant cashflow movements in 2011 included working capital inflows of €11.1 million, net capital expenditure of €16.1 million (of which €6.0 million was financed by new finance leases drawn down in 2011), and a payment of €30.0 million to settle the Group's obligations in respect of the 2008 "Leave and Return" scheme.

Gross cash (deposits and cash and cash equivalents) increased by €9.8 million during 2011 to €94.8 million (31 December 2010: €85.0 million). In addition to free cashflow discussed above, the Group obtained new finance lease financing of €6.0 million for new aircraft, made lease repayments totalling €2.0 million and received net interest of €3.5 million.

Gross debt increased by €42.0 million in 2011. As noted above, finance lease obligations at 31 December 2011 increased by €6.0 million and totalled €577.2 million (31 December 2010: €355.2 million). This increase was partially reduced by scheduled repayments of €62.0 million, currency movements amounting to €2.9 million and accrued interest of €5.1 million.

Aer Lingus' debt maturity profile extends until 2023 with finance lease repayments of approximately €40 million and €42 million expected in 2012 and 2013, respectively.

#### **Fuel, currency and emissions hedging**

To achieve greater certainty on costs we manage our exposure to fluctuations in the prices of fuel and foreign currency through hedging. At 31 December 2011 our estimated fuel requirements for 2012 and for 2013 were approximately 436,100 tonnes in each year, which were hedged as follows:

	<b>2012</b>	<b>2013</b>
% hedged	62%	7%
Average price per tonne (excl. into-plane costs)	\$972	\$991

The Group's major foreign currency exposure is to the US dollar. At 31 December 2011, the Group's forward purchases of US dollars comprised: \$206m of the estimated trading requirements for 2012 at an average rate of €1=\$1.42 and \$63m of the estimated trading requirements for 2013 at an average rate of €1=\$1.40. In addition, the Group has hedged 33% of the cost of six new A350 aircraft due for delivery in 2015 and 2016 at an average rate of €1=\$1.39.

The EU emissions trading system ("EU ETS") became effective for Airlines from 1 January 2012. Under the EU ETS, all flights departing from and arriving at EU airports must pay for a portion of their carbon emissions. Aer Lingus has received free allowances amounting to 80% of its 2012 requirement under the EU ETS. The Group has purchased the balance of its 2012 requirements for €1.66 million.

#### **Fleet**

The Group took delivery of four new A320, finance leased, short haul aircraft and disposed of one older A330 long aircraft during the year. Aer Lingus also exercised an option with Airbus to defer an order for three A330 aircraft which were originally scheduled for delivery in 2013 and 2014. Instead, Aer Lingus will take delivery of three A350 aircraft no earlier than 2018. As a result, the airline faces no short term aircraft capital expenditure peaks.

The Group also intends to introduce two leased A319 aircraft into the fleet in early 2012 to replace operating leased A320 aircraft exiting the fleet. The economics associated with the A319 aircraft type are appropriate for some of the lower demand routes within the Aer Lingus network and should drive further operating and cost efficiencies. Aer Lingus has no current plans to significantly change short haul capacity deployment in 2012.

### Basic and diluted loss per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares in issue during the year, excluding shares issued under the Long-Term Incentive Plan, which are classified as treasury shares. There were no dilutive potential ordinary shares in existence in 2011 and 2010. Therefore, there was no difference, in both periods, between basic and diluted earnings per share.

	2011	2010
Profit attributable to equity holders of the parent (€million)	71.2	43.0
Weighted average number of ordinary shares in issue (000s)	529,761	529,593
Basic and diluted earnings per share (€cent per share)	13.4	8.1

## Q4 2011 financial review

Please note that 2010 comparatives have been restated following a voluntary change in accounting policy adopted during 2011 and applied retrospectively related to IAS 19 "employee benefits". Following the change, actuarial gains and losses associated with post employment benefit obligations are recognised in the statement of comprehensive income rather than the income statement. The previously reported operating results, before exceptional items, was (€2.6) million for Q4 2010.

Compared to 2010, Aer Lingus experienced positive performance in October and November 2011. However, quarterly performance was impacted by weaker December trading than anticipated. The Group reported an operating loss, before net exceptional items, of €7.6 million (2010: loss of €7.7 million) in the fourth quarter of 2011. This increased loss, before exceptional items, is primarily due to an increase in fuel and airport charges, which exceeded the revenue gains that we achieved in the quarter.

At the pre-tax level, the Q4 2011 loss converted to a pre-tax profit of €3.8 million compared to a pre-tax loss of €38.7 million in 2010. The pre-tax loss is after exceptional items, which in 2011 included a profit of €21.0m on the surrender of our leasehold interest in our Head Office Building site to DAA plc. The net loss for Q4 2010 was after an exceptional charge of €29.6m related to the 2008/2009 "leave and return" scheme.

Passenger revenue increased by 6.1% compared to Q4 2010. This reflects a 7.3% growth in passenger numbers compared to the same period in 2010 offset by a slight decrease of 1.1% in average yield per passenger. Overall capacity was 4.8% higher primarily due to the significant weather disruption to services in November and December 2010 which did not reoccur in 2011.

Short haul passenger revenue increased by 6.8% to €165.2 million compared to Q4 2010. Short haul passenger volumes increased by 8.0% while average yield on short haul routes decreased by 1.1%. Short haul capacity was 7.5% higher in Q4 2011 compared to Q4 2010. Short haul load factor in Q4 2011 increased by 1.2 points versus Q4 2010.

Despite increased competition on the North Atlantic, long haul passenger revenue increased by 4.5% to €67.5 million. This was assisted by the strong performance of the business cabin and an increased fuel surcharge. The average yield on long haul routes increased by 3.1% while long haul passenger volumes increased by 1.4%. Long haul capacity was up 0.3% on Q4 2010. Long haul load factor in Q4 2011 increased by 1.2 points versus Q4 2010.

Retail revenue per passenger increased by 0.5% in Q4 2011 to €16.97, which coupled with the increase in passenger numbers, increased retail revenue by 7.8% to €37.2 million.

Operating costs in Q4 2011 were 10.0% up on Q4 2010 due to a combination of factors. Firstly, fuel prices were higher in the quarter. The average fuel price paid per tonne (excluding into-plane costs) in Q4 2011 was US\$952 compared to US\$729 in Q4 2010.

Airport charges increased by 11.7% in the quarter reflecting the increase in passenger numbers coupled with increased charges imposed by certain airports. Overheads in Q4 2011 compared to 2010 were impacted by higher third party contractor costs and professional fees which were incurred in relation to non-recurring projects which, as noted earlier, have now discontinued.

## Appendix

Statistics	Year ended 31 December			Three months ended 31 December		
	2011	2010	Change	2011	2010	Change
<b>Passengers carried ('000) *</b>						
Short haul	<b>8,616</b>	8,438	2.1%	<b>1,971</b>	1,825	8.0%
Long haul	<b>897</b>	908	(1.2%)	<b>221</b>	218	1.4%
<b>Total</b>	<b>9,513</b>	9,346	1.8%	<b>2,192</b>	2,043	7.3%
<b>Revenue passenger kilometres (RPKs) (million) *</b>						
Short haul	<b>9,331</b>	9,129	2.2%	<b>2,055</b>	1,880	9.3%
Long haul	<b>4,720</b>	4,766	(1.0%)	<b>1,165</b>	1,142	2.0%
<b>Total</b>	<b>14,051</b>	13,895	1.1%	<b>3,220</b>	3,022	6.6%
<b>Available seat kilometres (ASKs) (million)</b>						
Short haul	<b>12,509</b>	12,188	2.6%	<b>2,791</b>	2,596	7.5%
Long haul	<b>6,084</b>	6,081	-	<b>1,563</b>	1,558	0.3%
<b>Total</b>	<b>18,593</b>	18,269	1.8%	<b>4,354</b>	4,154	4.8%
<b>Passenger load factor (%) (flown RPKs per ASKs)*</b>						
Short haul	<b>74.6%</b>	74.9%	(0.3%)	<b>73.6%</b>	72.4%	1.2%
Long haul	<b>77.6%</b>	78.4%	(0.8%)	<b>74.5%</b>	73.3%	1.2%
<b>Total</b>	<b>75.6%</b>	76.1%	(0.5%)	<b>74.0%</b>	72.7%	1.2%
<b>Average fare (€)</b>						
Short haul	<b>90.65</b>	85.92	5.5%	<b>83.83</b>	84.77	(1.1%)
Long haul	<b>319.96</b>	304.07	5.2%	<b>305.43</b>	296.33	3.1%
Total Average Fare	<b>112.27</b>	107.12	4.8%	<b>106.17</b>	107.34	(1.1%)

\* Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid codeshare service operated in partnership with United Airlines. These figures differ from those published in Aer Lingus' monthly traffic statistics which were based on BOOKED passenger numbers in 2011.

## Consolidated income statement (unaudited)

Year ended 31 December

	Note	2011 €000	2010 €000
<b>Revenue</b>	2	<b>1,288,309</b>	1,215,572
<b>Operating expenses</b>			
Staff costs, excluding exceptional items		260,550	264,005
Depreciation and amortisation, excluding exceptional items		79,808	87,444
Aircraft operating lease costs		43,909	51,579
Fuel costs		288,728	266,205
Maintenance expenses		58,104	54,253
Airport charges		275,631	252,589
En-route charges		59,668	55,961
Distribution charges		46,728	47,521
Ground operations, catering and other operating costs		129,102	109,281
Other (gains)/losses – net, excluding exceptional items	3	(3,028)	(25,799)
		<b>1,239,200</b>	1,163,039
<b>Operating profit before net exceptional items</b>		<b>49,109</b>	52,533
Net exceptional items	4	37,161	(30,987)
<b>Operating profit after net exceptional items</b>		<b>86,270</b>	21,546
Finance income	5	15,422	22,962
Finance costs	5	(17,330)	(17,235)
<b>Profit before tax</b>		<b>84,362</b>	27,273
Income tax (charge)/credit	6	(13,168)	15,760
<b>Profit for the period</b>		<b>71,194</b>	43,033
<b>Profit attributable to:</b>			
- equity holders of the parent		<b>71,194</b>	43,033
<b>Earnings per share (expressed in €cent per share)</b>			
- basic and diluted	7	<b>13.4</b>	8.1

## Consolidated statement of comprehensive income (unaudited)

Year ended 31 December

	Note	2011 €000	2010 As restated €000
<b>Profit for the year</b>		<b>71,194</b>	43,033
<b>Other comprehensive income</b>			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve	5	(133)	(794)
- Deferred tax on amortisation of available-for-sale reserve		16	81
Cash flow hedges			
- Fair value gains		8,794	56,872
- Deferred tax on fair value gains		(1,099)	(7,109)
- Transfer to fuel costs		(13,625)	8,391
- Deferred tax on transfer to fuel costs		1,703	(1,049)
- Transfer to Income Statement (net exceptional items)	4	(11,595)	-
- Deferred tax on transfer to Income Statement		1,449	-
- Transfer to fixed assets		(4,771)	-
- Deferred tax on transfer to fixed assets		596	-
- Transfer to other gains/losses - net		(18,425)	(9,668)
- Deferred tax on transfer to other gains/losses - net		2,303	1,209
Post employment benefit obligations			
- Actuarial (loss)/gain on defined benefit arrangements		(5,504)	6,946
- Deferred tax on transfer to other losses/(gains) - net		611	(772)
<b>Total comprehensive profit for the period</b>		<b>31,514</b>	97,140
<b>Total comprehensive profit attributable to:</b>			
- equity holders of the parent		31,514	97,140



## Consolidated statement of financial position (unaudited)

As at 31 December

	Note	2011	2010	01/01/2010
			As restated	As restated
		€000	€000	€000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	8	770,944	760,356	790,486
Intangible assets	9	12,643	4,388	5,613
Loans and receivables	13	42,180	39,790	71,944
Derivative financial instruments	11	2,084	8,487	7,700
Trade and other receivables	12	16,680	-	-
Deferred tax asset	19	4,929	13,537	4,755
Deposits	13	128,516	128,359	90,260
		<b>977,976</b>	<b>954,917</b>	<b>970,758</b>
<b>Non-current assets held for sale</b>	10	<b>9,792</b>	-	-
<b>Current assets</b>				
Inventories		1,493	1,280	816
Derivative financial instruments	11	34,845	47,371	20,310
Trade and other receivables	12	79,319	82,454	75,835
Current income tax receivables		16	34	18
Loans and receivables		-	-	5,362
Deposits	13	459,561	420,885	490,425
Cash and cash equivalents	13	264,495	305,999	170,475
		<b>839,729</b>	<b>858,023</b>	<b>763,241</b>
<b>Total assets</b>		<b>1,827,497</b>	<b>1,812,940</b>	<b>1,733,999</b>
<b>EQUITY</b>				
Called-up share capital	20	26,702	26,702	26,702
Share premium	21	510,605	510,605	510,605
Capital conversion reserve fund		5,048	5,048	5,048
Capital redemption reserve fund		343,796	343,796	343,796
Other reserves		23,359	55,347	6,643
Retained earnings		(72,789)	(139,090)	(188,297)
<b>Total equity</b>		<b>836,721</b>	<b>802,408</b>	<b>704,497</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Finance lease obligations	15	536,971	479,658	444,374
Derivative financial instruments	11	733	26	8,067
Post employment benefit obligations	17	28,982	21,921	25,975
Provisions for other liabilities and charges	18	47,826	61,015	94,998
		<b>614,512</b>	<b>562,620</b>	<b>573,414</b>
<b>Current liabilities</b>				
Trade and other payables	14	293,453	296,411	335,034
Bank overdrafts	13	-	9,988	-
Finance lease obligations	15	40,266	55,573	48,247
Derivative financial instruments	11	8,867	14,620	14,571
Provisions for other liabilities and charges	18	33,678	71,320	58,236
		<b>376,264</b>	<b>447,912</b>	<b>456,088</b>
<b>Total liabilities</b>		<b>990,776</b>	<b>1,010,532</b>	<b>1,029,502</b>
<b>Total equity and liabilities</b>		<b>1,827,497</b>	<b>1,812,940</b>	<b>1,733,999</b>

## Consolidated statement of changes in equity (unaudited)

	Called-up share capital €000	Share premium €000	Capital conversion reserve fund €000	Capital redemption reserve fund €000	Cash flow hedging reserve €000	Available-for- sale reserve €000	Treasury shares €000	Share based payment reserve €000	Retained earnings €000	Total equity €000
<b>Balance at 1 January 2010 (as restated)</b>	26,702	510,605	5,048	343,796	11,705	1,223	(6,326)	41	(188,297)	704,497
Profit for the year	-	-	-	-	-	-	-	-	43,033	43,033
Other comprehensive income for the year ended 31 December 2010	-	-	-	-	48,646	(713)	-	-	6,174	54,107
<b>Total comprehensive income for the year</b>	-	-	-	-	48,646	(713)	-	-	49,207	97,140
Share based payment reserve	-	-	-	-	-	-	-	882	-	882
Deferred tax impact	-	-	-	-	-	-	-	(111)	-	(111)
<b>Balance at 31 December 2010</b>	26,702	510,605	5,048	343,796	60,351	510	(6,326)	812	(139,090)	802,408
<b>Balance at 1 January 2011</b>	26,702	510,605	5,048	343,796	60,351	510	(6,326)	812	(139,090)	802,408
Profit for the year	-	-	-	-	-	-	-	-	71,194	71,194
Other comprehensive income for the year ended 31 December 2011	-	-	-	-	(34,670)	(117)	-	-	(4,893)	(39,680)
<b>Total comprehensive income</b>	-	-	-	-	(34,670)	(117)	-	-	66,301	31,514
Exercise of LTIP awards	-	-	-	-	-	-	711	(711)	-	-
Share based payment reserve	-	-	-	-	-	-	-	3,199	-	3,199
Deferred tax impact	-	-	-	-	-	-	-	(400)	-	(400)
<b>Balance at 31 December 2011</b>	26,702	510,605	5,048	343,796	25,681	393	(5,615)	2,900	(72,789)	836,721

## Consolidated statement of cash flows (unaudited)

Year ended 31 December

	Note	2011 €000	2010 As restated €000
<b>Cash flows from operating activities</b>	22	<b>87,618</b>	46,515
Income tax paid		-	(16)
<b>Net cash generated from operations</b>		<b>87,618</b>	46,499
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (net of lease finance raised)		(31,531)	(803)
Proceeds from sales of property, plant and equipment		11,400	17,664
(Increase)/Decrease in deposits		(32,415)	77,328
Proceeds from sales of loans and receivables		-	46,574
Interest received		6,473	10,225
<b>Net cash generated from investing activities</b>		<b>(46,073)</b>	150,988
<b>Cash flows from financing activities</b>			
Repayments of finance lease obligations		(61,967)	(63,436)
Interest paid		(10,299)	(7,165)
<b>Net cash used in financing activities</b>		<b>(72,266)</b>	(70,601)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(30,721)</b>	126,886
Cash, cash equivalents and bank overdrafts at 1 January		296,011	170,475
Exchange losses on cash and cash equivalents		(795)	(1,350)
<b>Cash, cash equivalents and bank overdrafts at 31 December</b>	13	<b>264,495</b>	296,011

## Basis of preparation

This financial information has been derived from the information to be used to prepare the Group's consolidated financial statements for the year ended 31 December 2011 in accordance with European Union (EU) adopted International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Acts 1963 – 2009 applicable to companies reporting under IFRS. The financial information set out in this document does not constitute full statutory consolidated financial statements for the year ended 31 December 2011 and is unaudited. The financial information for the years ended 31 December 2011 and 31 December 2010 has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments. The financial information has been prepared in accordance with the accounting policies disclosed in the prior year annual report, except as explained in the significant accounting policies note below. The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The financial information set out in this preliminary announcement does not constitute the statutory consolidated financial statements of the Group, a copy of which is required to be annexed to the annual return to the Companies Registration Office in Ireland. A copy of the statutory consolidated financial statements required to be annexed to the annual return in respect of the year ended 31 December 2010 has been so annexed. A copy of the statutory consolidated financial statements in respect of the year ended 31 December 2011 will be annexed to the Group's annual return for 2011. The Directors expect to approve the consolidated financial statements for the year ended 31 December 2011 in March 2012. The independent auditors' report on the full statutory consolidated financial statements for the year ended 31 December 2011 has yet to be completed.

### Critical accounting estimates and judgements

The Group believes that of its significant accounting policies and estimates, the following may involve a higher degree of judgement and complexity:

#### (a) Provisions

The Group makes provisions for legal and constructive obligations, which it knows to be outstanding at the period-end date. These provisions are generally made based on historical or other pertinent information, adjusted for recent trends where relevant. However, they are estimates of the financial costs of events that may not occur for some years. The actual outcome may differ significantly from that estimated.

#### (b) Post employment benefits

As the provisions of the trust deeds governing the Irish Pension Schemes are such that no changes to the contribution rates are possible without the prior consent of the Group, the Group has concluded that it has no obligation, legal or constructive, to increase its contributions beyond those levels. As such, it has accounted for the Irish Pension Schemes as defined contribution schemes under the provisions of IAS 19 *Employee Benefits*, and, as a result, does not recognise any surplus or deficit in the schemes in the statement of financial position.

If any legal or constructive obligation to vary the Group's contributions based on the funding status of the Irish Pension Schemes arises, IAS 19 would require the Group to include any pension fund surplus or deficit on its statement of financial position and reflect any period on period movements in its income statement or the statement of comprehensive income.

Refer to notes 16 and 17 for further detail.

#### (c) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### (d) Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be enacted within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell.

## Foreign currency translation

### (a) Functional and presentation currency

The financial statements are presented in euro, which is the functional and presentation currency of the Company and all of its trading subsidiaries.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Exchange rates prevailing at balance sheet date are set out below:

	USD	STG
31/12/2011	1.30	0.84
31/12/2010	1.32	0.86

Average exchange rates during the year were as follows:

	<b>USD</b>	<b>STG</b>
2011	1.40	0.87
2010	1.33	0.86

**Significant accounting policies**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2010, except as set out in the note "Voluntary change in accounting policy" shown below.

## **Voluntary change in accounting policy**

During the final quarter of 2011, the Group voluntarily adopted a change in its accounting policy with respect to the reporting of actuarial gains and losses arising on its defined benefit, post employment plans. Previously the Group had availed of the option permitted by IAS 19 "Employee Benefits" ("IAS 19") to recognise actuarial gains and losses immediately within the Income Statement. The Group has now availed of an alternative treatment permitted by IAS 19 whereby actuarial gains and losses are recognised immediately within Other Comprehensive Income. The reasons why the Group considers that the new policy provides reliable and more relevant information are: that it avoids recognising within the Income Statement, short-term fluctuations in an item that is long-term in nature and; that, as most listed companies in the UK & Ireland adopt this policy, it is the policy most understood by users of financial statements. This policy has now been mandated by IAS 19 Revised which will be effective (assuming EU endorsement) for years commencing on or after 1 January 2013. Following the change, service costs are recognised within staff costs in the income statement. The expected return on scheme assets and interest costs are recorded within finance income and finance costs, respectively, and actuarial gains and losses are recognised immediately in other comprehensive income. This change in accounting policy has been applied retrospectively in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". The effect of this voluntary change in accounting policy on the impacted financial statement lines including earnings per share for the years ended 31 December and 2011 and 2010 is shown below:

## 2011

	€000 Per previous accounting policy	€000 North American Pension Scheme	€000 North American Post Retirement Medical Benefit Scheme	€000 Post Retirement Income Streaming	€000 Other	€000 As restated
<b>Revenue</b>	1,288,309	-	-	-	-	1,288,309
<b>Operating expenses</b>						
Staff costs	266,404	(3,081)	(661)	(1,937)	(175)	260,550
Depreciation and amortisation	79,808	-	-	-	-	79,808
Aircraft operating lease costs	43,909	-	-	-	-	43,909
Fuel costs	288,728	-	-	-	-	288,728
Maintenance expenses	58,104	-	-	-	-	58,104
Airport charges	275,631	-	-	-	-	275,631
En-route charges	59,668	-	-	-	-	59,668
Distribution charges	46,728	-	-	-	-	46,728
Ground operations, catering and other operating costs	129,102	-	-	-	-	129,102
Other (gains)/losses - net	(3,028)	-	-	-	-	(3,028)
	1,245,054	(3,081)	(661)	(1,937)	(175)	1,239,200
<b>Operating profit/(loss) before net exceptional items</b>	43,255	3,081	661	1,937	175	49,109
Net exceptional items	37,161	-	-	-	-	37,161
<b>Operating profit/(loss) after net exceptional items</b>	80,416	3,081	661	1,937	175	86,270
Finance income	14,835	514	-	-	73	15,422
Finance costs	(15,781)	(547)	(69)	(854)	(79)	(17,330)
<b>Profit/(loss) before tax</b>	79,470	3,048	592	1,083	169	84,362
Income tax (charge)/credit	(12,557)	(381)	(74)	(135)	(21)	(13,168)
<b>Profit/(loss) for the period</b>	<b>66,913</b>	<b>2,667</b>	<b>518</b>	<b>948</b>	<b>148</b>	<b>71,194</b>
<b>Profit/(loss) attributable to:</b>						
- equity holders of the parent	66,913	2,667	518	948	148	71,194
Profit/(loss) per share for profit/(loss) attributable to the equity holders of the parent (expressed in € cent per share)						
- basic and diluted	12.6	-	-	-	-	13.4

## 2010

	€000 Per previous accounting policy	€000 North American Pension Scheme	€000 North American Post Retirement Medical Benefit Scheme	€000 Post Retirement Income Streaming	€000 Other	€000 As restated
<b>Revenue</b>	1,215,572	-	-	-	-	1,215,572
<b>Operating expenses</b>						
Staff costs	258,892	2,451	121	2,441	100	264,005
Depreciation and amortisation	87,444	-	-	-	-	87,444
Aircraft operating lease costs	51,579	-	-	-	-	51,579
Fuel costs	266,205	-	-	-	-	266,205
Maintenance expenses	54,253	-	-	-	-	54,253
Airport charges	252,589	-	-	-	-	252,589
En-route charges	55,961	-	-	-	-	55,961
Distribution charges	47,521	-	-	-	-	47,521
Ground operations, catering and other operating costs	109,281	-	-	-	-	109,281
Other (gains)/losses - net	(25,799)	-	-	-	-	(25,799)
	1,157,926	2,451	121	2,441	100	1,163,039
<b>Operating profit/(loss) before net exceptional items</b>	57,646	(2,451)	(121)	(2,441)	(100)	52,533
Net exceptional items	(30,987)	-	-	-	-	(30,987)
<b>Operating profit/(loss) after net exceptional items</b>	26,659	(2,451)	(121)	(2,441)	(100)	21,546
Finance income	22,401	492	-	-	69	22,962
Finance costs	(15,613)	(560)	(82)	(898)	(82)	(17,235)
<b>Profit/(loss) before tax</b>	33,447	(2,519)	(203)	(3,339)	(113)	27,273
Income tax (charge)/credit	14,988	315	25	417	15	15,760
<b>Profit/(loss) for the period</b>	<b>48,435</b>	<b>(2,204)</b>	<b>(178)</b>	<b>(2,922)</b>	<b>(98)</b>	<b>43,033</b>
<b>Profit/(loss) attributable to:</b>						
- equity holders of the parent	48,435	(2,204)	(178)	(2,922)	(98)	43,033
Profit/(loss) per share for profit/(loss) attributable to the equity holders of the parent (expressed in € cent per share)						
- basic and diluted	9.1	-	-	-	-	8.1

This change in accounting policy also impacted on the consolidated statement of changes in equity. The impact of those changes is shown below:



**2011**

	<b>€000 Per previous accounting policy</b>	<b>€000 North American Pension Scheme</b>	<b>€000 North American Post Retirement Medical Benefit Scheme</b>	<b>€000 Post Retirement Income Streaming</b>	<b>€000 Other</b>	<b>€000 As restated</b>
Other comprehensive income/(loss) for the year ended 31 December	(34,788)	(3,048)	(592)	(1,083)	(169)	(39,680)
Total comprehensive income/(loss) for the year	36,406	(3,048)	(592)	(1,083)	(169)	31,514

**2010**

	<b>€000 Per previous accounting policy</b>	<b>€000 North American Pension Scheme</b>	<b>€000 North American Post Retirement Medical Benefit Scheme</b>	<b>€000 Post Retirement Income Streaming</b>	<b>€000 Other</b>	<b>€000 As restated</b>
Other comprehensive income/(loss) for the year ended 31 December	47,932	2,520	203	3,339	113	54,107
Total comprehensive income/(loss) for the year	90,965	2,520	203	3,339	113	97,140

**Reclassifications**

Obligations in respect of the North American Pension Scheme which had been previously been presented as trade and other payables, have been reclassified to post employment benefit obligations in 2011. Obligations in respect of the Group's post employment income streaming provisions and the North American Post Retirement Medical Benefit Scheme which had previously been presented as provisions for other liabilities and charges have also been reclassified to post employment benefit obligations in 2011.

Derivative financial instruments previously reported as either assets or liabilities on a net basis by counterparty have been reclassified and are now reported as assets or liabilities on an individual basis.

The impacts of these reclassifications on the Group's 31/12/2010 and 01/01/2010 consolidated statement of financial position are set out below:

	<b>31/12/2010</b>		
	<b>As reported €000</b>	<b>Reclassification €000</b>	<b>As reclassified €000</b>
<b>Non-Current Assets</b>			
Derivative financial instruments	8,462	25	8,487
<b>Current Assets</b>			
Derivative financial instruments	40,261	7,110	47,371
<b>Non-Current Liabilities</b>			
Derivative financial instruments	-	26	26
Post employment benefit obligations	-	21,921	21,921
Provisions for liabilities and charges	80,012	(18,997)	61,015
<b>Current Liabilities</b>			
Trade and other payables	299,117	(2,706)	296,411
Derivative financial instruments	7,511	7,109	14,620
Provisions for liabilities and charges	71,538	(218)	71,320

01/01/2010

	<b>As reported</b>	<b>Reclassification</b>	<b>As reclassified</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Non-Current Assets</b>			
Derivative financial instruments	6,849	851	7,700
<b>Current Assets</b>			
Derivative financial instruments	17,699	2,611	20,310
<b>Non-Current Liabilities</b>			
Derivative financial instruments	7,303	764	8,067
Post employment benefit obligations	-	25,975	25,975
Provisions for liabilities and charges	115,050	(20,052)	94,998
<b>Current Liabilities</b>			
Trade and other payables	340,710	(5,676)	335,034
Derivative financial instruments	11,873	2,698	14,571
Provisions for liabilities and charges	58,483	(247)	58,236

## Notes to the financial information

### 1 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 evaluates flight 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 profit before net exceptional items. This measure excludes the effects of non-recurring expenditure and revenue from the operating segments, such as restructuring costs and provision remeasurements, when the remeasurements are the result of an isolated, non-recurring event. These are aggregated in the 'miscellaneous group level adjustments' caption below. Interest income and expense are not included in the segmental results reviewed by the chief operating decision maker.

Total segment assets exclude deferred tax, loans and receivables, deposits and cash and cash equivalents, all of which are managed on a central basis. These are part of the reconciliation to total statement of financial position assets.

Segment revenue of €1,288.3m (2010: €1,215.6m) is wholly derived from external customers.

	2011	2010 As restated
	€000	€000
<b>Adjusted operating profit before net exceptional items, interest and tax for the reportable segment</b>	<b>44,852</b>	46,237
Miscellaneous group level adjustments	4,257	6,296
Net exceptional items	37,161	(30,987)
<b>Operating profit after net exceptional items</b>	<b>86,270</b>	21,546
Finance income	15,422	22,962
Finance costs	(17,330)	(17,235)
<b>Profit before tax</b>	<b>84,362</b>	27,273

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

	2011	2010 As restated
	€000	€000
Total segment assets	927,816	904,370
Deferred tax asset	4,929	13,537
Loans and receivables	42,180	39,790
Deposits	588,077	549,244
Cash and cash equivalents	264,495	305,999
<b>Total assets per statement of financial position</b>	<b>1,827,497</b>	1,812,940

## 2 Revenue

	2011	2010
	€000	€000
Passenger revenue	1,067,993	1,001,119
Ancillary revenue	168,651	165,127
Cargo revenue	43,069	41,271
Other revenue	8,596	8,055
	<b>1,288,309</b>	<b>1,215,572</b>

## 3 Other gains/(losses) - net

	2011	2010
	€000	€000
Fair value (losses)/gains on cross-currency interest rate swap	(839)	986
Realised gains on forward foreign currency contracts	2,359	25,050
Net foreign exchange gains/(losses) on operating activities	1,508	(237)
	<b>3,028</b>	<b>25,799</b>

## 4 Net exceptional items

Exceptional gains/(losses) comprise:

	2011	2010
	€000	€000
Northern European airspace closure costs (a)	39	(4,283)
(loss)/profit on disposal of property, plant and equipment (b)	(2,213)	3,108
Payment to discharge ESOT profit share obligation (c)	(177)	(25,691)
Gain on exit of line maintenance contract (d)	-	11,780
Restructuring (e)	3,146	8,628
Statutory redundancy government refund (f)	90	4,971
Leave and return settlement (g)	(802)	(29,500)
Gain on surrender of head office site lease agreement (h)	21,016	-
Reclassification of cash flow hedging reserve (i)	11,595	-
Gain on revision of frequent flier programme terms and conditions (j)	4,467	-
	<b>37,161</b>	<b>(30,987)</b>

- (a) Re-measurement of the provision in respect of estimated cost of compensating passengers for costs incurred as a result of the closure of northern European airspace following the eruption of a volcano in Eyjafjallajökull, Iceland.
- (b) The 2011 charge is the net of a profit of €0.9m on the disposal of an owned A330 aircraft and a charge of €3.2m, being the write down of an aircraft to the lower of net book value and fair value less costs to sell. The aircraft, an owned A320, is now classified as held for sale on the balance sheet. The 2010 credit relates to the profit on disposal of an owned A330 series aircraft.
- (c) The 2011 amount relates to professional fees in respect of the 2010 once-off payment to the Aer Lingus Employee Share Ownership Trust ("ESOT") to fully extinguish the Group's obligations to pay any further share of profits to the ESOT.
- (d) Gain realised following the exit of line maintenance contract with SR Technics.
- (e) Re-measurement of provisions for restructuring costs associated with early retirement, voluntary severance and migration schemes.
- (f) Statutory refunds relating to redundancies effected under the Greenfield cost reduction programme.
- (g) The 2011 amount relates to fees and costs in respect of the 2010 settlement of tax obligations associated with 2008/2009 "leave and return" programme.
- (h) On 8 November 2011, the Group signed and completed a formal contract with Dublin Airport Authority plc ("DAA") for the surrender of Aer Lingus' leasehold interest in its Head Office Building site (the "HOB site") to DAA. This was pursuant to the Group's announcement of 25 June 2010 that it had signed a Heads of Agreement with DAA in relation to the transaction.

The value of the consideration payable by DAA to Aer Lingus for the surrender is €22.15m. The consideration is non-cash in nature and comprises €1.75m of future rental abatements and €0.40m of branding and licences to occupy certain property owned by DAA.

The gain recognised is recorded net of a cash payment of €1.0m to DAA on completion of the transaction, being full and final settlement of any obligation which the Group may have to DAA for dilapidations and miscellaneous professional fees.

The Group continues to occupy the Head Office Building under a short term license from DAA to allow the Group to transfer to the new office accommodation noted above in an organised and structured manner.

This transaction is considered a related party transaction in accordance with IAS 24 "related party disclosures"

- (i) Release of amounts from cash flow hedging reserve related to capital foreign exchange hedges originally associated with planned purchase of three A330 aircraft and exercise in Q1 2011, of an option to convert those orders to three A350 aircraft. Due to significant uncertainty regarding the Group's plans to take these aircraft, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the amounts previously held in reserves in respect of those forecast cash flows have been released from cash flow hedging reserve and due to the significance of the amounts to the annual results, have been categorised as exceptional.
- (j) Gain arising from the revision in late 2011 of terms and conditions of membership of the Group's frequent flier programme.

## 5 Finance income and expense

	<b>2011</b>	2010
	<b>€000</b>	€000
<i>Finance income</i>		
Interest on cash, cash equivalents and deposits	<b>13,022</b>	13,182
Interest income on loans and receivables	<b>1,656</b>	3,752
Amortisation of available-for-sale reserve	<b>133</b>	794
Finance income on post employment benefit assets	<b>586</b>	561
Other financial income	<b>25</b>	4,673
	<b>15,422</b>	22,962
<i>Finance expense</i>		
Interest expense on finance lease obligations	<b>15,781</b>	15,613
Interest expense on post employment benefit obligations	<b>1,549</b>	1,622
	<b>17,330</b>	17,235

## 6 Income tax

Income tax credit recognised in the income statement

	<b>2011</b>	2010
	<b>€000</b>	€000
<b>Current taxation</b>		
Irish corporation tax	-	-
Remeasurement of income tax provisions	-	-
	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(13,168)</b>	2,964
Remeasurement of deferred tax asset	-	12,796
	<b>(13,168)</b>	15,760
<b>Total income tax (charge)/credit</b>	<b>(13,168)</b>	15,760

## 7 Basic and diluted profit per share

Basic profit per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares in issue during the year, excluding shares issued under the Long Term Incentive Plan, which are classified as treasury shares.

There were no dilutive potential ordinary shares in existence in 2011 and 2010. Therefore, there was no difference, in both periods, between basic and diluted earnings per share.

	<b>2011</b>	2010
		As restated
Profit attributable to equity holders of the parent (€000s)	<b>71,194</b>	43,033
Weighted average number of ordinary shares in issue (000s)	<b>529,761</b>	529,593
Basic and diluted profit per share (€cent per share)	<b>13.4</b>	8.1

**8 Property, plant and equipment**

	<b>Flight equipment</b>	<b>Property</b>	<b>Ground equipment</b>	<b>Other equipment</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Cost</b>					
1 January 2010	1,144,512	38,965	48,391	23,462	1,255,330
Additions	65,621	2,815	2,533	1,033	72,002
Disposals	(53,140)	-	(1,328)	(220)	(54,688)
<b>31 December 2010</b>	<b>1,156,993</b>	<b>41,780</b>	<b>49,596</b>	<b>24,275</b>	<b>1,272,644</b>
<b>Accumulated depreciation</b>					
1 January 2010	377,827	32,879	33,636	20,502	464,844
Depreciation charge for the period	78,364	4,032	4,320	845	87,561
Disposals	(38,604)	-	(1,293)	(220)	(40,117)
<b>31 December 2010</b>	<b>417,587</b>	<b>36,911</b>	<b>36,663</b>	<b>21,127</b>	<b>512,288</b>
<b>Cost</b>					
1 January 2011	1,156,993	41,780	49,596	24,275	1,272,644
Additions	101,746	7,551	735	5,812	115,844
Disposals	(49,348)	(18,457)	(1,829)	(5,268)	(74,902)
Reclassified to non-current assets held for sale	(23,906)	-	-	-	(23,906)
<b>31 December 2011</b>	<b>1,185,485</b>	<b>30,874</b>	<b>48,502</b>	<b>24,819</b>	<b>1,289,680</b>
<b>Accumulated depreciation</b>					
1 January 2011	417,587	36,911	36,663	21,127	512,288
Depreciation charge for the period	74,120	2,296	4,019	1,478	81,913
Impairment charge for the period <sup>1</sup>	3,165	-	-	-	3,165
Disposals	(38,938)	(18,457)	(1,827)	(5,294)	(64,516)
Reclassified to non-current assets held for sale	(14,114)	-	-	-	(14,114)
<b>31 December 2011</b>	<b>441,820</b>	<b>20,750</b>	<b>38,855</b>	<b>17,311</b>	<b>518,736</b>
<b>Net book value</b>					
31 December 2011	<b>743,665</b>	<b>10,124</b>	<b>9,647</b>	<b>7,508</b>	<b>770,944</b>
31 December 2010	739,406	4,869	12,933	3,148	760,356
<b>Leased assets included above (net book value)</b>					
31 December 2011	<b>601,278</b>	-	-	-	<b>601,278</b>
31 December 2010	540,926	-	-	-	540,926

<sup>1</sup> The impairment charge of €3.2m recorded during the year relates to the write down of one owned A320 aircraft held for sale to its fair value less costs of sale. This write down has been recorded within net exceptional items.

	Computer Software	License <sup>1</sup>	Total
	€000	€000	€000
<b>Cost</b>			
At 1 January 2010	48,443	-	48,443
Additions	2,645	-	2,645
At 31 December 2010	51,088	-	51,088
<b>Aggregate amortisation</b>			
At 1 January 2010	42,830	-	42,830
Charge for the year	3,870	-	3,870
At 31 December 2010	46,700	-	46,700
<b>Cost</b>			
At 1 January 2011	51,088	-	51,088
Additions	8,189	3,000	11,189
Disposals	(589)	-	(589)
At 31 December 2011	58,688	3,000	61,688
<b>Aggregate amortisation</b>			
At 1 January 2011	46,700	-	46,700
Charge for the year	2,934	-	2,934
Disposals	(589)	-	(589)
At 31 December 2011	49,045	-	49,045
<b>Net book value</b>			
31 December 2011	9,643	3,000	12,643
31 December 2010	4,388	-	4,388

<sup>1</sup> License reflects licenses to occupy certain DAA plc owned property acquired as part of the surrender of the Group's leasehold interest in the HOB site. Further description of this transaction is contained in note 4 "net exceptional items".

## 10

**Non-current assets held for sale**

The non-current asset held for sale of €9.8m (2010: €nil) comprises an owned A320 aircraft. This aircraft is grounded and is being actively marketed.



**11 Derivative financial instruments**

	2011		2010 As restated	
	€000	€000	€000	€000
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap	-	-	-	6,317
Forward foreign exchange contracts	27,597	2,230	39,274	8,035
Forward fuel price contracts	9,332	7,370	16,584	294
<b>Total</b>	<b>36,929</b>	<b>9,600</b>	<b>55,858</b>	<b>14,646</b>
<b>Less non-current portion:</b>				
Forward foreign exchange contracts	1,837	178	5,626	-
Forward fuel price contracts	247	555	2,861	26
<b>Total non-current portion</b>	<b>2,084</b>	<b>733</b>	<b>8,487</b>	<b>26</b>
<b>Current portion</b>	<b>34,845</b>	<b>8,867</b>	<b>47,371</b>	<b>14,620</b>

Prior year comparatives have been restated in order to classify financial instruments based on the characteristics of individual trades, as opposed to net total trades by counterparty.

**12 Trade and other receivables**

	2011 €000	2010 €000
Trade and other receivables	29,138	32,910
Other amounts receivable	37,740	41,169
Prepayments and accrued income	25,232	6,125
Value Added Tax	3,889	2,250
	<b>95,999</b>	<b>82,454</b>

Shown as:

Non-current assets	16,680	-
Current assets	79,319	82,454
	<b>95,999</b>	<b>82,454</b>

**13 Gross cash, cash and cash equivalents and bank overdrafts**

	<b>2011</b>	2010
	<b>€000</b>	€000
<b>Non-current</b>		
Loans and receivables	<b>42,180</b>	39,790
Deposits	<b>128,516</b>	128,359
	<b>170,696</b>	168,149
<b>Current</b>		
Loans and receivables	-	-
Deposits	<b>459,561</b>	420,885
Cash and cash equivalents	<b>264,495</b>	305,999
Bank overdrafts	-	(9,988)
	<b>724,056</b>	716,896
<b>Total gross cash</b>	<b>894,752</b>	885,045

At 31 December 2011 the Group held deposits of €26.2m (31 December 2010: €49.3m), which were not available for immediate use by the Group.

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

	<b>As at 31 December 2011 €000</b>	As at 31 December 2010 €000
Cash and cash equivalents	<b>264,495</b>	305,999
Bank overdrafts	-	(9,988)
	<b>264,495</b>	296,011

## 14 Trade and other payables

	2011	2010 As restated
	€000	€000
Trade payables	60,514	51,880
Accruals and deferred income	46,888	56,830
Ticket sales in advance, excluding taxes and charges <sup>(1)</sup>	128,025	120,652
Employment related taxes	8,263	7,891
Other amounts payable <sup>(2)</sup>	49,763	59,158
	<b>293,453</b>	<b>296,411</b>

<sup>(1)</sup> the total value of tickets sales in advance at year end was €164.5m (2010: €166.4m)

<sup>(2)</sup> reclassified to reflect separate presentation of post employment benefits. See reclassifications note in basis of preparation for further details.

## 15 Finance lease obligations

	2011	2010
	€000	€000
Current portion	40,266	55,573
Non-current portion	536,971	479,658
	<b>577,237</b>	<b>535,231</b>

During the year, the group took delivery of four new A320 aircraft under finance lease arrangements.

## 16 Defined contribution pension schemes

Aer Lingus participates in a number of pension schemes for its staff. The principal schemes, and the Group's contributions to them, are set out in the table below. These are accounted for as defined contribution schemes because the rate of contribution to the schemes is fixed.

	2011	2010
	€m	€m
Irish Airlines (General Employees) Superannuation Scheme	5.4	5.8
Irish Airlines (Pilots) Superannuation Scheme	9.6	11.1

Aer Lingus participates in two main occupational pension schemes, one for its pilots and one multi-employer scheme (the Dublin Airport Authority plc and SR Technics being the other sponsoring employees) for other employees who fall within the category of "General Employees" (collectively the "Irish Pensions Schemes"). Although similar rules apply to both Irish Pension Schemes, the contribution rates and benefits differ between the schemes. The trust deeds governing the Irish Airlines (General Employees) Superannuation Scheme (the IASS) and the Irish Airlines (Pilots) Superannuation Scheme (the Pilots' Scheme) to which the Group contributes, state respectively 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 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 and deed rules. At 31 December 2011 it had 14,680 members, comprising 4,519 active members, 5,344 deferred members and 4,817 pensioners. Approximately two thirds of members are current or former employees of Aer Lingus. The statutory minimum funding standard (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. At 31 December 2011, the IASS was estimated by the trustee's actuary to have an MFS deficit of approximately €700m (2010: deficit €400m). Approximately two thirds of any deficit is attributable to employees or former employees of Aer Lingus. The estimated deficit has increased significantly over the course of 2011, primarily due to increases in the estimated cost of purchasing annuities for pensioners in a wind-up and a decline in IASS asset values.

Aer Lingus 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 trustees will be required to take measures to improve the scheme's financial position. 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 the Group would 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 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 the Group has received (that such a challenge is unlikely to succeed), a Court were to find against the Group in any such litigation, significant or very 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 the Group should such claims be made and succeed.

At 31 December 2011 the Pilots' Scheme had 895 members, comprising 431 active members, 118 deferred members and 346 pensioners. The most recent triennial actuarial valuation performed by the trustee's actuary showed an MFS deficit at 31 March 2009 of €17m. As part of the Greenfield agreements negotiated in late 2009 under the auspices of the LRC, Aer Lingus 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. The latest available information is that The Pilots' Scheme was estimated to have an MFS deficit of €170m as at 31 October 2011. The Group's position that it has no responsibility for the deficit in the 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 the Group has received (that such a challenge is unlikely to succeed), a Court were to find against the Group in any such litigation, significant or very 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 the Group should such claims be made and succeed.

It remains the Group's position, supported by firm legal advice, that it has no legal or constructive obligation in respect of either the IASS or the Pilots' Schemes, other than to continue to pay the fixed rate contributions as set out in the trust deeds of these schemes.

## 17 Post employment benefit obligations

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

	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>
North American Pension (a)	4,699	2,706
North American Post Retirement Medical Benefit (b)	1,788	1,453
Income Streaming (c)	22,118	17,072
Other	377	690
	<u>28,982</u>	<u>21,921</u>

- (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, which has 119 members (2010: 130) is closed to future members and to accrued. The scheme is a funded scheme.
- (b) The group also operates a post retirement 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.

**18 Provisions for other liabilities and charges**

	<b>Business repositioning<sup>1</sup></b>	<b>Aircraft maintenance<sup>2</sup></b>	<b>Other <sup>3</sup></b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<i>As restated</i>				
At 1 January 2010	95,304	36,063	42,166	173,533
Provided during the period	29,500	13,120	-	42,620
Reclassified to post employment benefit obligations	-	-	(19,215)	(19,215)
Written back during the period	(7,669)	(4,060)	(3,828)	(15,557)
Utilised during the period	(41,486)	(5,569)	(1,991)	(49,046)
<b>At 31 December 2010</b>	<b>75,649</b>	<b>39,554</b>	<b>17,132</b>	<b>132,335</b>
At 1 January 2011	75,649	39,554	17,132	132,335
Provided during the period	2,395	15,315	3,791	21,501
Reclassified to post employment benefit obligations	-	-	(1,010)	(1,010)
Written back during the period	(7,153)	(690)	(4,467)	(12,310)
Utilised during the period	(40,988)	(16,188)	(1,836)	(59,012)
<b>At 31 December 2011</b>	<b>29,903</b>	<b>37,991</b>	<b>13,610</b>	<b>81,504</b>
<b>Analysed as current liabilities</b>				
31 December 2011	<b>9,967</b>	<b>21,623</b>	<b>2,088</b>	<b>33,678</b>
31 December 2010	47,162	21,536	2,622	71,320
<b>Analysed as non-current liabilities</b>				
31 December 2011	<b>19,936</b>	<b>16,368</b>	<b>11,522</b>	<b>47,826</b>
31 December 2010	28,487	18,018	14,510	61,015
<b>Total provision</b>				
31 December 2011	<b>29,903</b>	<b>37,991</b>	<b>13,610</b>	<b>81,504</b>
31 December 2010	75,649	39,554	17,132	132,335

<sup>1</sup> A provision for business repositioning costs is recognised when a constructive obligation exists. The amount of the provision is based on the terms of business repositioning measures, including employee severance which have been communicated to employees. They represent the directors' best estimate of the cost of these measures, having regard to the current status of negotiations. At 31/12/2011, the majority of the provision relates to the Greenfield cost reduction programme.

<sup>2</sup> A provision is made on a monthly basis for maintenance of aircraft held under operating leases. The provision will be utilised as the major airframe and engine overhauls take place. Aircraft maintenance also includes provision for the costs to meet the contractual return conditions on these aircraft.

<sup>3</sup> Other provisions relate mainly to the frequent flyer programme and post cessation termination benefits in respect of former employees. The frequent flyer provision is utilised when points are used or when they become non-redeemable. Points are redeemable for a maximum of three years. The termination obligations are accrued or utilised based on actuarial valuations carried out on an annual basis.

**19 Deferred tax**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	<b>2011</b>	2010
	<b>€000</b>	€000
Deferred tax asset to be recovered after more than 12 months	<b>56,362</b>	59,597
Deferred tax liability to be recovered after more than 12 months	<b>(51,433)</b>	(46,060)
<b>Deferred tax asset</b>	<b>4,929</b>	13,537

The gross movement on the deferred tax account is as follows:

	<b>2011</b>	2010
	<b>€000</b>	€000
Deferred asset at 1 January	<b>13,537</b>	4,755
Income statement (expense)/credit	<b>(13,168)</b>	15,760
Tax credited/(charged) directly to equity	<b>4,560</b>	(6,978)
<b>Deferred tax asset at 31 December</b>	<b>4,929</b>	13,537

**20 Called-up share capital**

	<b>2011</b>	2010
	<b>€000</b>	€000
<b>Authorised</b>		
900,000,000 ordinary shares of €0.05 each	<b>45,000</b>	45,000
<b>Issued and fully paid</b>		
At 1 January	<b>26,702</b>	26,702
Issued during the period: Nil (2010: Nil)	-	-
Cancelled during the period: Nil (2010: Nil)	-	-
At 31 December	<b>26,702</b>	26,702

The total number of ordinary shares of €0.05 each in issue at 31 December 2011 was 534,040,090 (31 December 2010: 534,040,090) of which 3,946,658 (31 December 2010: 4,446,658) were treasury shares.

**21 Share premium**

	<b>2011</b>	2010
	<b>€000</b>	€000
At 1 January	<b>510,605</b>	510,605
Shares issued at premium	-	-
At 31 December	<b>510,605</b>	510,605

**22 Cash used in operations**

	<b>2011</b>	2010
	<b>€000</b>	As restated €000
Profit before tax	<b>84,362</b>	27,273
<i>Adjustments for:</i>		
- Depreciation and amortisation	<b>84,821</b>	91,411
- Net movements in provisions for liabilities and charges	<b>(43,731)</b>	(45,455)
- Net fair value losses on derivative financial instruments	<b>256</b>	(989)
- Share options and awards expense	<b>3,198</b>	882
- Finance income	<b>(15,422)</b>	(22,962)
- Finance expense	<b>17,330</b>	17,235
- Net exceptional items	<b>(37,161)</b>	6,234
- Other losses/(gains) – net	<b>(17,077)</b>	4,065
<i>Changes in working capital</i>		
- Inventories	<b>(213)</b>	(464)
- Trade and other receivables	<b>(9,624)</b>	(5,757)
- Trade and other payables	<b>20,879</b>	(24,958)
Cash used in operations	<b>87,618</b>	46,515

## 23 Commitments and contingencies

### (a) Capital commitments

At 31 December, the Group had capital commitments as follows:

	<b>2011</b>	2010
	<b>€000</b>	€000
Contracted for but not provided		
- Aircraft and equipment	<b>908,545</b>	902,511
- Other	<b>3,299</b>	928
	<b>911,844</b>	903,439

### (b) Lease commitments

At 31 December 2011 the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	<b>Property</b>	<b>Aircraft</b>	<b>Plant and machinery</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
No later than one year	7,714	44,096	1
Later than one year but no later than five years	32,489	144,744	-
Later than five years	49,587	9,214	-
	89,790	198,054	1

At 31 December 2010 the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	<b>Property</b>	<b>Aircraft</b>	<b>Plant and machinery</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
No later than one year	8,130	46,778	69
Later than one year but no later than five years	28,171	95,109	-
Later than five years	49,916	7,543	-
	86,217	149,430	69

Lease commitments exclude the impact of rent abatements received as part of consideration for the surrender of the HOB site as described in note 4 "net exceptional items".

## 24 Related party transactions

During the year, the Group disposed of its leasehold interest in its Head Office Building to the Dublin Airport Authority. Details of the nature and terms of this transaction are included in Note 4 "net exceptional items".

## 25 Post balance sheet events

There have been no significant post balance sheet events.