

2013 revenue increased 2.3% with full year operating profit of €61.1 million in line with guidance

Dublin and London, 24 February 2014: Aer Lingus Group plc (“Aer Lingus”, “the Group”) today announced its unaudited preliminary results for the year ended 31 December 2013.

€*million unless otherwise stated	2013	2012 as restated ¹	Change ²
Passengers – mainline operations ('000s)	9,625	9,653	(0.3%)
Average fare revenue per passenger (€)	121.62	120.15	1.2%
Average fare revenue per seat (€)	90.43	88.70	2.0%
Revenue	1,425.1	1,393.3	2.3%
Operating costs (excluding net exceptional items)	(1,364.0)	(1,324.2)	(3.0%)
Operating profit before net exceptional items	61.1	69.1	(11.6%)
Profit before tax	39.5	40.4	(2.2%)
Free cash flow ³	76.3	75.2	1.5%
Balance sheet	31 Dec 2013	31 Dec 2012	Change
Gross cash	897.4	908.5	(1.2%)
Gross debt	(477.6)	(531.6)	10.2%
Net cash	419.8	376.9	11.4%

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.

¹ Refer to the basis of preparation note to the financial information regarding restatement due to adoption of IAS 19R

² Sign convention: favourable / (adverse)

³ Free cash flow is defined in the explanation of use of non-IFRS measures

2013 financial and operating highlights

- Total revenue up 2.3% year on year with average fare revenue per seat up 2.0%
- Effective network capacity management resulted in load factor climbing 0.7 points to 78.4% with increases achieved on both short and long haul services
- Very strong long haul performance with revenue up 11.1%, passengers numbers up 12.2% and load factor up 0.6 points on increased capacity of 11.6%
- Short haul revenue down 3.3% due to extremely good weather in Ireland and Northern Europe in the peak Summer period and increasingly competitive pricing environment in Q3 and Q4 2013. Capacity managed tightly to protect margins
- Operating profit, before net exceptional items, of €61.1 million is in line with stated guidance
- Continued balance sheet strength: gross cash of €897.4 million at year end and an 11.4% increase in net cash to €419.8 million
- Proposed dividend of four cent per share for 2013 is in line with prior year. We expect to maintain dividends at this annual level for the foreseeable future

2013 strategic highlights

- Profitable expansion of our long haul operations through the re-deployment of an additional A330 aircraft allowing us to increase frequency on Dublin to Boston and Chicago services. We more than sold this additional capacity
- Successful launch of contract flying business: “Little Red” domestic UK services on behalf of Virgin Atlantic Airways and long haul service from Scandinavia to the Caribbean for the tour operator Novair
- New and expanded codeshare agreements with United Airlines and Air Canada

- New retail initiatives such as pre-order, enhanced and refreshed meal offerings on short haul and long haul services, wi-fi on our transatlantic services and new checked baggage options
- Planned long haul expansion in 2014 with new services to Toronto and San Francisco and increased frequency on services from Shannon to Boston and New York. Seat capacity up by 20% facilitated by the damp lease of three Boeing 757 aircraft from ASL Aviation Group

Christoph Mueller, Aer Lingus' CEO commented: *"I am pleased to report that Aer Lingus' 2013 operating profit, before net exceptional items, was €61.1m in line with our previously issued guidance.*

2013 was the first year of significant growth for Aer Lingus since the global economic downturn. We added 11.6% additional capacity to our mainline long haul network and more than sold this. We also successfully commenced contract flying operations and as a result, increased our short haul fleet by four aircraft. While we faced challenges in short haul markets in the second half of the year, we took effective corrective action to protect margin and in this way delivered a creditable profit.

While I am broadly satisfied with our financial performance for 2013, I believe that we could have done better. In particular, the absence of progress on pension matters inhibited developments on several other key matters for our business. We believe that our proposal to address funding difficulties in the IASS represents a viable solution, which is in the interests of all parties. However, we can no longer defer business improvement initiatives while we wait for this proposal to be implemented and we will press ahead in 2014 to focus on two key areas for our business, namely service and cost.

In Q1 2014, we will launch our Cost Optimisation and Revenue Excellence ("CORE") programme. CORE will be a two year programme and will have three main elements set out below. Our goal is to ensure that we continue to deliver for our customers attractive and differentiated products that represent compelling value for money. The three elements of CORE are:

- Cost and business optimisation. The implementation of simpler, more efficient business processes for our core airline business. This will include the transformation of various support functions into profit centres. Savings will be achieved from further headcount reductions and increased productivity. Our total cost reduction target is €30 million;*
- Enhancing our revenues by focusing on merchandising, retail revenue and business-to-customer distribution systems. In particular, we will be focused on selling the additional 20% long haul seat capacity that we will be adding in 2014 as well as replacing our current passenger reservation system with state of the art technology; and*
- Further improvements in staff engagement, training, flexibility and productivity.*

As part of CORE, we will improve our service offering in 2014. We will re-launch our website with a re-designed online booking portal and improve our mobile app. This winter we will upgrade our long haul business class offering including the introduction of fully horizontal lie-flat seats. In addition, we will offer US border pre-clearance from Dublin Airport Terminal Two for all of our Summer 2014 schedule flights and we will move to the new Queen's Terminal in London Heathrow, which will offer an enhanced passenger experience. These changes will further differentiate Aer Lingus from our competitors, many of whom in recent times are attempting to emulate our "value carrier" proposition. The CORE programme means that we have a lot of work to do in 2014 and 2015.

Shareholder return is a key consideration for us and we recently reviewed our dividend policy. Following this review, we propose to pay a dividend of four cent per share in respect of 2013 and annually thereafter for the foreseeable future.

We expect the first quarter of 2014 will be weaker than 2013 reflecting market conditions and the timing of Easter. Based on current trading, we expect our operating result for 2014, before net exceptional items, to be broadly in line with 2013."

A presentation for shareholders and analysts will be held on 24 February 2014 at 9am. This will be available on a live audio webcast at <http://corporate.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 information; 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.

Use of non-IFRS measures

In discussion of our full year financial results for 2013, we refer to five non-IFRS financial measures at various points in these preliminary results. These non-IFRS measures are set out below along with an accompanying description and reconciliation to the IFRS measure where appropriate. These non-IFRS measures are used to assist an understanding of 2013 performance.

Non-IFRS measure	Basis of calculation	Reason for use
EBITDAR	Pre-exceptional earnings before Interest, Tax, Depreciation, Amortisation and Aircraft operating lease rental	As EBITDAR is a pre-depreciation and lease rental measure, it is widely used by some airline sector analysts to compare performance of airlines that have differing fleet ownership models
Free cashflow	Cash generated from operating activities less net capital expenditure (purchases of fixed assets exclusive of finance lease debt raised less proceeds from disposals) plus or minus net interest received/paid	Free cashflow is used by some airline sector analysts and other commentators as a measure of the cash generated by a business. It measures cash flow after capital expenditure to maintain operations but before "discretionary" spend such as dividends
Gross cash	Cash deposits and formerly available for sale bonds held by Aer Lingus Group plc and its subsidiaries	Gross cash is the measure used most commonly by management to indicate the level of financial resources available to the Group. Management believe that gross cash rather than net cash is an appropriate cash metric on the basis that Aer Lingus' debt comprises long term financing rather than short term debt or overdrafts
Gross debt	Total finance leases plus any other debt	Gross debt is the measure used most commonly by management to indicate the level of indebtedness borne by Aer Lingus
Constant currency passenger fare revenue	Passenger fare revenue generated in foreign currencies is retranslated at respective prior year FX rates and compared to current year foreign currency derived passenger fare revenue at respective current year FX rates.	The Group now generates approximately half of passenger bookings outside Ireland. This results in more of our total passenger fare revenue being receivable in currencies other than the euro, our reporting currency. Movements in FX rates cause variances in total passenger fare revenue outside of normal volume and fare yield. Constant currency calculation allows for a more informative comparison of passenger fare revenue on an overall year-on-year basis

EBITDAR - € million	2013	2012
Operating profit before net exceptional items	61.1	69.1
Add back:		
Depreciation & amortisation	82.9	76.1
Aircraft operating lease costs	45.2	46.1
EBITDAR	189.2	191.3

Free cashflow - € million	2013	2012
Cash generated from operating activities (before FX on deposits)	112.2	118.5
Net capital expenditure	(31.4)	(41.1)
Net interest paid	(4.5)	(2.2)
Free cashflow	76.3	75.2

Financial summary (unaudited)

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2012 (as restated)⁽ⁱ⁾</u>	<u>Change ⁽ⁱⁱ⁾</u>
	<u>€ million</u>	<u>€ million</u>	
Revenue			
- Short haul fare revenue	789.0	816.3	(3.3%)
- Long haul fare revenue	381.6	343.5	11.1%
- Retail revenue	181.5	<u>176.5</u>	<u>2.8%</u>
- <i>Total passenger revenue</i>	<i>1,352.1</i>	<i>1,336.3</i>	<i>1.2%</i>
- Cargo revenue	43.6	45.7	(4.6%)
- Other revenue	29.4	<u>11.3</u>	<u>160.2%</u>
- Total Revenue	1,425.1	1,393.3	2.3%
Operating costs			
- Fuel	(357.3)	(358.6)	0.4%
- Staff costs	(277.4)	(266.7)	(4.0%)
- Airport & en-route charges	(359.4)	(356.7)	(0.8%)
- Other operating costs	(369.9)	<u>(342.2)</u>	<u>(8.1%)</u>
- Total Operating costs	(1,364.0)	(1,324.2)	(3.0%)
Operating profit before net exceptional items	61.1	69.1	(11.6%)
Net exceptional items ⁽ⁱⁱⁱ⁾	(17.4)	(26.5)	34.3%
Operating profit after net exceptional items	43.7	42.6	2.6%
Net finance expense	(4.2)	(2.0)	110.0%
Share of profit/(loss) of Joint Venture	0.0	<u>(0.2)</u>	<u>100.0%</u>
Profit before tax	39.5	40.4	(2.2%)
Income tax expense	(5.4)	(6.5)	16.9%
Profit after tax	34.1	33.9	0.6%
EBITDAR ^(iv)	189.2	191.3	(1.1%)
Passengers carried ('000s) ^(v)	9,625	9,653	(0.3%)
Available seat kilometres (ASKs) ^(v) (million)	18,898	18,685	1.1%
Passenger load factor ^(v)	78.4%	77.7%	0.7 pts
Average fare revenue per passenger (€)	121.62	120.15	1.2%
Average fare revenue per seat (€)	90.43	88.70	2.0%
Retail revenue per passenger (€)	18.85	18.28	3.1%
	31 Dec 2013	31 Dec 2012	Change
	€ million	€ million	
Gross cash	897.4	908.5	(1.2%)
Gross debt	(477.6)	(531.6)	10.2%
Net cash	419.8	376.9	11.4%

(i) Refer to the basis of preparation note to the financial information regarding restatement due to adoption of IAS 19R.

(ii) Sign convention: favourable/(adverse)

(iii) See Note 4 to the financial information for details

(iv) EBITDAR: is defined in the explanation on use of non-IFRS measures

(v) Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann, contract flying operations and the Washington Dulles – Madrid codeshare service operated in partnership with United Airlines in 2012.

Traffic and selected KPIs

Statistics	Year ended 31 December			Three months ended 31 December		
	2013	2012	Change	2013	2012	Change
Passengers carried ('000s) *						
Short haul	8,527	8,674	(1.7%)	1,877	1,956	(4.0%)
Long haul	1,098	979	12.2%	265	248	6.9%
Total	9,625	9,653	(0.3%)	2,142	2,204	(2.8%)
Revenue passenger kilometres (RPKs) (million) *						
Short haul	9,037	9,393	(3.8%)	1,866	1,973	(5.4%)
Long haul	5,770	5,130	12.5%	1,393	1,305	6.7%
Total	14,807	14,523	2.0%	3,259	3,278	(0.6%)
Available seat kilometres (ASKs) (million) *						
Short haul	11,954	12,464	(4.1%)	2,616	2,733	(4.3%)
Long haul	6,944	6,221	11.6%	1,726	1,588	8.7%
Total	18,898	18,685	1.1%	4,342	4,321	0.5%
Passenger load factor (%) (flown RPKs per ASKs)*						
Short haul	75.6%	75.4%	0.2 pts	71.3%	72.2%	(0.9) pts
Long haul	83.1%	82.5%	0.6 pts	80.7%	82.2%	(1.5) pts
Total	78.4%	77.7%	0.7 pts	75.1%	75.9%	(0.8) pts
Average fare revenue per passenger (€)*						
Short haul	92.53	94.11	(1.7%)	83.81	87.73	(4.5%)
Long haul	347.52	350.82	(1.0%)	316.22	332.66	(5.0%)
Total average fare revenue per passenger	121.62	120.15	1.2%	112.56	115.34	(2.4%)
Average fare revenue per seat (€)*						
Short haul	67.88	68.67	(1.2%)	59.53	62.13	(4.2%)
Long haul	288.65	289.12	(0.2%)	254.61	271.46	(6.2%)
Total average fare revenue per seat	90.43	88.70	2.0%	81.16	82.79	(2.0%)
Aer Lingus Regional passengers carried ('000s)	1,112	1,010	10.1%	275	258	6.6%

* Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann, contact flying operations and the Washington Dulles –Madrid codeshare service operated in partnership with United Airlines in 2012.

Q4 2013 summary (unaudited)

€million unless otherwise indicated	Q4 2013	Q4 2012	Change ¹
Passengers ('000s)	2,142	2,204	(2.8%)
ASKs	4,342	4,321	0.5%
Average fare revenue per passenger (€)	112.56	115.34	(2.4%)
Revenue	300.9	306.2	(1.7%)
Operating costs	(318.3)	(323.6)	(1.6%)
Operating loss before exceptional items	(17.4)	(17.4)	0.0%

€million	31 Dec 2013	30 Sept 2013	Change ¹
Gross cash	897.4	933.2	(3.8%)
Gross debt	(477.6)	(492.6)	3.0%
Net cash	419.8	440.6	(4.7%)

¹ Sign convention: favourable / (adverse)

Chief Executive Officer's review

Dear fellow shareholders,

I am pleased that Aer Lingus is reporting revenues of €1,425.1 million, up 2.3% on prior year and an operating result of €61.1 million (corresponding to an operating margin of 4.3% for 2013). While this operating result is below that achieved in the previous year (reflecting the challenges faced in 2013 which I will describe later), Aer Lingus still maintained progress towards the objective of achieving commercial and financial growth over the medium to long term. I am confident that this progress will underpin our financial results in 2014 and subsequent years.

2013 was not without its difficulties and there are areas where we did not achieve what we had hoped. In particular, our initial expectation was that our operating result for 2013 would be broadly in line with that reported for 2012, i.e. €69.1 million. However, we revised our 2013 outlook due to the intense price competition that characterised our short haul markets in the second half of 2013 (see comments below).

Review of trading

Taking a high level perspective, 2013 may be viewed as a year of two distinct trading periods.

In the first half of 2013, we made some significant investments in our business:

- We launched our contract flying operations on behalf of Virgin Atlantic Airways ("Virgin") in the UK market comprising four Airbus A320 aircraft operating on short haul domestic UK routes serving London Heathrow. As expected, this operation broadly broke even in 2013 (reflecting start-up costs incurred in early 2013) and is forecast to turn profitable in 2014.
- We expanded our transatlantic operations with the re-deployment of an additional Airbus A330 aircraft into our mainline long haul fleet. This aircraft (which had been previously deployed by Aer Lingus on an extended codeshare with United Airlines on a Washington – Madrid route) was used to increase frequencies on our Dublin to Boston and Chicago routes and in this way provide a double daily service to both US destinations, improving choice and connectivity opportunities for our passengers. This drove an increase in our mainline long haul capacity of 11.6%. We successfully converted this additional capacity into extra seat sales and achieved long haul load factors in excess of 90% in the key summer trading months of June, July and August. On a full year basis, mainline long haul load factor increased 0.6 points to 83.1% despite this additional capacity.

The second half of 2013 presented challenges which offset some of the benefit of the growth actions outlined above and caused us to revise our expectations with regard to full year trading performance.

- In July 2013, we experienced exceptionally warm weather conditions in Ireland and Northern Europe. These conditions changed passenger behaviour with an adverse impact on our booking patterns, mainly on continental routes, as Irish customers deferred foreign leisure travel plans or chose to vacation at home in the traditionally busy Summer holiday season. This impacted both passenger volumes and yields. Although we noted this trend in our outlook statement at the time of our first half results, we had taken actions (including seat sales) to encourage demand and recover lost passengers and revenues through Q3 and Q4 2013 trading.
- In mid-August 2013, we began to notice more intense than usual competition in our key mainline short haul markets. In particular we noticed a change in the short haul yield environment with heavily discounted fares evident across the European market. Continental booking patterns again declined relative to prior year and we responded to this market change by introducing more proactive pricing. Despite this, by mid-September, our forward booking profile for the remainder of the year indicated that it would not be possible for us to fully recover passenger volumes and revenues previously lost. We therefore issued a trading update to the market on 13 September 2013, reducing our full year operating profit outlook guidance to around €60 million. In order to achieve this result, we took some carefully planned tactical decisions with respect to Q4 2013 such as reducing short haul capacity by 4.3% with a view to protecting revenues but avoiding costs and therefore preserving margin.
- On long haul we continued to experience strong volume and fare revenue per seat performance throughout 2013 despite the deployment of additional capacity on our transatlantic network in the form of a seventh Airbus A330 aircraft.

Our reported 2013 profit of €61.1 million is consistent with the revised guidance issued in September 2013.

Short haul markets continue to be very competitive in the first quarter of 2014 and we are alert to the changes that our principal short haul competitor is starting to make to its business. Although we continue to experience challenges in our short haul routes, this remains an important and attractive business for us. We will continue to evolve our product and customer propositions in 2014 to ensure that we remain competitive in both our long and short haul markets. Our focus will be on value for the customer and on our cost base.

Cost Optimisation and Revenue Excellence ("CORE") programme

Our "value carrier" business model which we launched in late 2009 has proven effective. However, we see opportunities to take it further. At the same time, we are facing new challenges in our markets which must be addressed in 2014. As noted above, the competitive intensity in our short haul market has significantly increased and our competitors are re-positioning themselves to emulate our "value carrier" business model.

In order to respond effectively and at the same time exploit the full potential of our business model, we must maintain our differentiation and we need a cost base which enables us to continue to be price competitive.

However, our progress on these matters was inhibited in 2013 by the inability to implement the Labour Court recommendations on pensions. Against that background, we have concluded that we cannot afford any further delays and we must press ahead to take advantage of the opportunities and to address the challenges which face us.

To that end, we are now launching the CORE programme with the objective of ensuring that we can grow profitability for the medium term. This will require us to deliver attractive and differentiated products to our customers that represent compelling value for money.

CORE is a two year programme and has three main elements, each of which will require some investment, particularly in our IT infrastructure.

1. Cost and business optimisation

- Simplify and improve our core airline processes for the benefit of our customers
- Transform various support functions into profit centres
- Further headcount reductions and increased productivity
- Total cost reduction target of €30 million

2. Revenue excellence

- Further develop our merchandising and retail offers
- Delivering the “*customer journey of the future*”. As part of this initiative in 2014, we will:
 - (i) Re-launch our website with a re-designed booking portal;
 - (ii) Improve our mobile app;
 - (iii) Have all our transatlantic flights from Dublin pre-cleared for the Summer schedule (for the first time);
 - (iv) Introduce fully lie-flat seats on our long haul flights during the Winter 2014 / 2015 season;
 - (v) Move to the Queen’s Terminal at London Heathrow offering a much enhanced passenger experience; and
 - (vi) Replace our current passenger reservation system with state of the art technology

3. Our people

- Further improvements in staff engagement, training, flexibility and productivity

CORE will be underway by the end of Q1 2014 and we will provide updates on progress as part of our regularly scheduled trading results.

Update on fleet

Aer Lingus and Airbus are discussing revised delivery dates for the nine A350XWB aircraft that we have on order as the original delivery dates cannot be achieved. It is likely that we will still take nine aircraft which will be a mixture of A350-900 and A350-900R variants. Deliveries are likely to be over the period 2018 to 2020. Further details will be announced once final agreements are reached.

Separately, we will, over time, start to evaluate our short haul fleet rollover options but this is not urgent given the relatively young age of our short haul fleet.

2014 outlook

We expect the first quarter of 2014 will be weaker than 2013 reflecting market conditions and the timing of Easter. Based on current trading, we expect our operating result for 2014, before net exceptional items, to be broadly in line with 2013.

Dividend policy update

Aer Lingus paid a dividend per share of four cent in respect of 2012. Following the positive trading performance in 2013, the Board proposes a dividend of four cent per share in respect of 2013.

The Group’s dividend policy, set out in May 2012, was to pay a dividend in respect of the years 2011, 2012 and 2013, provided a dividend was prudent in the context of the Group’s trading performance and prospects.

Given the delivery of an operating profit in each year since 2010; the attractive prospects for the business and the increase in the Group’s distributable reserves, the Board announces that, in respect of 2014 and for the foreseeable future, it expects to pay an annual dividend of four cent per share provided the dividend is appropriate in the context of the Group’s financial position, strategic objectives and prospects. It is proposed that the dividend be paid as a final dividend.

UK Competition Commission (“UK CC”) review

On 28 August 2013, the UK CC issued its final report concluding its investigation into Ryanair’s minority shareholding in Aer Lingus. Following a detailed investigation, the UK CC concluded that Ryanair’s shareholding is anti-competitive and that it must sell down its 29.81% stake to 5%. The UK CC’s final report also requires that:

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

The UK CC specifically determined in its report that the order requiring Ryanair to sell down its shareholding to 5% need not await the outcome of Ryanair’s appeal to the European General Court of the prohibition by the European Commission of its third takeover offer for Aer Lingus in February 2013.

Ryanair have appealed the findings of the UK CC’s final report to the Competition Appeals Tribunal. This appeal was heard by the Competition Appeals Tribunal between 12 and 14 February 2014 and a decision is awaited.

Pension matters

One of our priorities for 2013 was to definitively address funding issues relating to the Irish Airlines (General Employees) Superannuation Scheme (the “IASS”), and the Irish Airlines (Pilots) Superannuation Scheme (the “Pilots’ Scheme”) so that solutions could be agreed and implemented that are in the best interests of all parties, including shareholders, employees and customers. Regrettably, we did not achieve as much progress as we had hoped at the start of 2013.

In late 2012, Aer Lingus Limited engaged with parties involved in the IASS, alongside representatives of Dublin Airport Authority plc (“DAA”), the Irish Business and Employers Confederation, the Irish Congress of Trade Unions (“ICTU”) and the Labour Court with a view to resolving funding issues in the IASS.

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

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

The key elements of the IASS Proposal are:

- The IASS Proposal should attempt to achieve the target levels of benefit set out in the Interim Recommendation. These target benefits should be achieved through a combination of (i) IASS benefits (reduced by the imposition of coordination and any further benefit reductions which the IASS Trustee considers appropriate); (ii) investment proceeds from a proposed once-off Aer Lingus Limited contribution of €110 million (see next bullet point); (iii) employer and employee contributions into a new and separate defined contribution scheme for the benefit of Aer Lingus Limited’s current employees (see next bullet point) and (iv) the Irish State pension;
- Subject to certain agreements and required approvals being obtained, a once-off lump sum of €110 million should be contributed by Aer Lingus Limited to individual pension funds within a new and separate defined contribution scheme for the benefit of Aer Lingus Limited’s current employees who are members of the IASS. This contribution of €110 million was proposed by the Labour Court in the Final Recommendation for the benefit of current employees. Each employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them;
- The payment of the April 2013 annual salary increment should be delayed until September 2013. Following the payment of this increment, annual increments should be replaced by cost stabilisation payments outlined in the Final Recommendation over the period to 2017 providing cost predictability and certainty over this period. Aer Lingus Limited has paid the April 2013 increment with effect from September 2013; and
- Subject to certain agreements and required approvals being obtained, a once-off contribution by Aer Lingus Limited of €30 million would be made available in respect of former employees of Aer Lingus Limited who are deferred members of the IASS. Each former employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them.

Notwithstanding the Interim Recommendation and Final Recommendation and Aer Lingus Limited’s involvement in discussions to resolve funding issues in the IASS, it remains Aer Lingus Limited’s position with respect to the IASS, supported by firm legal advice, that it has no legal or constructive obligation other than to continue to pay the fixed rate contributions as set out in the trust deed and rules of the IASS. However, the deficit in the IASS is such that current and deferred members face the loss of a very large part of their expected pension benefits if this scheme is wound up under current legislation. In this context, Aer Lingus Limited believes that the IASS Proposal is in the interests of all parties, including shareholders, employees and customers.

Specifically, it is expected that the IASS Proposal would:

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

Any implementation of the IASS Proposal is dependent on a series of further complex steps. These steps include (but are not limited to) the following agreements being reached and approvals being achieved:

- Agreement with the trade unions;
- Agreement by the IASS Trustee with the sponsoring employers;
- Aer Lingus Group plc shareholder approval to make the proposed once-off contributions totaling €140 million;
- Trade union member ballot approvals;
- The successful conclusion of a range of implementation steps by the IASS Trustee amongst others; and
- Approval by the Irish Pensions Regulator (the “Pensions Board”) of a funding proposal to implement the benefit reductions proposed by the IASS Trustee

If the above agreements with the IASS Trustee and the trade unions can be concluded, the directors of Aer Lingus Group plc plan to issue a circular to all shareholders and convene an extraordinary general meeting (“EGM”) to seek approval from shareholders to make the proposed once-off contributions totaling €140 million. It is important to note that the proposed payments totaling €140 million remain subject to this shareholder approval and will not be made in the absence of such approval. While Aer Lingus Limited is committed to seeking a solution that can be implemented in the best interests of all parties, including shareholders and employees, the process is complex and there is no certainty that agreement can be reached between the various parties. If the required agreements and approvals are achieved, Aer Lingus Limited would then implement the IASS Proposal.

Recent developments

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

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

The IASS Trustee's draft funding proposal comprises the following elements:

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

Aer Lingus Limited's assessment, based on careful consideration of the IASS Trustee's draft funding proposal and advice received, is that Aer Lingus Limited's proposed once-off funding of €110 million to a new defined contribution scheme for current employees remains adequate to support the achievement of the targets recommended by the Labour Court.

Subject to the required agreements and approvals outlined above, Aer Lingus reaffirms its commitment to the proposed contributions totaling €140 million in order to significantly improve the current and future pension prospects of Aer Lingus Limited's current and former employees who are members of the IASS. Aer Lingus Limited also remains committed to the required implementation of the cost stabilisation elements outlined in the Final Recommendation in order to provide Aer Lingus Limited with cost predictability and certainty over the coming years. Aer Lingus Limited notes the Trustee's planned implementation date of 31 December 2014, but would encourage all parties to engage constructively to accelerate the proposed implementation.

The draft funding proposal received from the IASS Trustee has not yet been submitted to the Pensions Board and it remains the responsibility of the IASS Trustee to make the submission. Aer Lingus Limited therefore expects the IASS Trustee to move forward with the submission of this draft funding proposal as soon as is practicable on the basis that it represents a viable solution which would result in a better outcome for the affected parties than the forced winding up of the IASS. IASS Trustee engagement with the Pension Board is a crucial preliminary step that must be completed before the other key steps (outlined above) can be taken.

Aer Lingus Limited notes that members of the SIPTU trade union have voted in favour of industrial action related to pension matters. Aer Lingus Limited also notes recent media reports that other unions representing employees of Aer Lingus Limited, DAA and Shannon Airport Authority plc ("SAA") are to consult with their members with regard to coordination of industrial action on pension matters. This renewed prospect of industrial action is not helpful to making progress towards reaching a solution which is in the interests of all parties. Despite the renewed prospect of industrial action, Aer Lingus Limited will continue to work hard to achieve a balanced and fair outcome and encourages all parties seeking to resolve the funding issues of the IASS to engage constructively.

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

As noted earlier, the ongoing slow progress in implementing a definitive solution has adversely impacted Aer Lingus Limited's cost reduction efforts in 2013. However, management now believe that such cost reduction actions can no longer be delayed and will be pursued in 2014 regardless of whether any progress is achieved on IASS matters.

The Interim Recommendation and Final Recommendation do not relate to the Pilots' Scheme. Aer Lingus Limited is separately engaged in a process of discussion with parties affected by the funding position in the Pilots' Scheme. These discussions have been complicated by changes to the taxation of pensions in Ireland in late 2013 which may have potential implications for members of the Pilots' Scheme. These pension discussions continue in parallel with the pilot pay tribunal which is yet to conclude.

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

Our priority for 2014 is again to bring funding matters relating to the IASS and Pilots' Scheme to a conclusion. Aer Lingus Limited remains committed to putting future pension provision for its employees on a sustainable footing and would encourage all of the other parties to engage in a constructive manner. In the event that Aer Lingus Limited achieves the requisite agreements with the IASS Trustee, ICTU and the trade unions and the necessary steps outlined above are completed, the directors of Aer Lingus Group plc plan, as outlined above, to issue a circular to all shareholders which sets out full details of the proposed solution and to convene an EGM to seek approval from shareholders. It is difficult to state with certainty when, and indeed if, this EGM will occur although Aer Lingus Group plc is hopeful that this EGM will take place in the course of 2014.

Conclusion

Aer Lingus' performance in 2013 has demonstrated resilience and an ability to deliver results in the face of significant competitive challenges. We remain financially strong with gross cash of €897.4 million at 31 December 2013 and net cash of €419.8 million. Nevertheless, efficiency and flexibility are both vital to ensure we can continue to adapt as the market and our competitors evolve. In this regard, we cannot lose focus on our policy of continuously enhancing our product while reducing and eliminating cost and increasing productivity across the airline.

In addition, we have to accept that certain legacy issues remain unresolved, notably the funding issues in the IASS and the continuing adverse presence of Ryanair, our main competitor, as the largest shareholder on our share register. Unfortunately, the resolution of these matters is taking longer to achieve than we would like and we are not in a position to completely control the resolution of either issue. The ongoing pension matter, in particular, has the potential to negatively impact the industrial relations landscape in which the Group operates leading to potential operational disruption in 2014.

On the other hand, our continuing strong long haul performance presents a real opportunity for further revenue growth in 2014. We remain committed to the delivery of our medium term growth strategy and the creation of value for our shareholders.

As always, I would like to thank our staff and management team for their hard work in 2013 and their continued focus in 2014. Also, I would like to express my thanks to our shareholders for their support of our efforts in recent and future years.

Christoph Mueller
Chief Executive Officer

2013 financial review

Aer Lingus delivered a good operating result, before net exceptional items, in 2013 despite encountering challenges in the year. In addition, the Group remains in a financially strong position.

2012 Operating Profit	Revenue Growth	Increased Cost	2013 Operating Profit
69.1	31.8	(39.8)	61.1

Revenues grew 2.3% to €1,425.1 million (2012: €1,393.3 million) and operating costs increased 3.0% to €1,364.0 million (2012: €1,324.2 million). This resulted in an operating profit of €61.1 million (2012: €69.1 million), before net exceptional items.

- The 2013 operating profit is 11.6% below that reported for 2012 and represents an operating margin of 4.3% in respect of 2013 (2012: 5.0%).
- However, EBITDAR declined by only 1.1% as the impact of the lower operating profit noted above was partly caused by relatively higher year-on-year depreciation charges driven by operational changes in our aircraft fleet.

2013 was a year of two halves. At the end of the first 6 months of 2013, revenues generated by our mainline short haul route network were performing slightly ahead of 2012 despite a reduction in mainline short haul capacity. However, the second half of 2013 presented us with some challenges which resulted in a mainline short haul performance which was below our expectations. Despite these pressures, our mainline short haul route network remains an attractive and important business for us and we continue to be satisfied with its performance.

Explanatory note on comparative figures and operating statistics

Please note the following with regard to the financial results for 2013 compared to 2012:

- For our Summer 2013 schedule, we deployed an additional (seventh) A330 long haul aircraft in our mainline fleet which has increased revenues and costs compared to 2012. The revenues earned from the enhanced code share, on which this aircraft had previously been deployed and which ceased in Q4 2012, were reported as a component of “Other revenue” in 2012. The main operating expense line items impacted by this change in our operation are fuel, airport charges, staff costs, maintenance and depreciation.
- Revenue associated with our contract flying business with Virgin commenced in Q2 and is included in “Other revenue”. The relevant operating expenses we incur under the agreement, such as staff costs, maintenance, aircraft hire and overheads have been recorded in each relevant operating expense line, including €2.1 million of start up costs reported in Q1 2013. This wet lease operation broadly broke even in 2013 and is expected to be profitable in 2014.

These two changes have added approximately €55 million to total revenue. Please note that we do not include the contract flying business in our operating statistics (e.g. passenger numbers, ASKs, etc.)

Revenue

The year-on-year increase in total revenue is due to strong revenue performances from long haul, retail and contract flying operations (which commenced in 2013) that more than offset weaker performances on short haul and cargo.

Passenger revenue

In 2013, our short haul markets were softer than expected, particularly in the second half of the year. We responded by actively promoting our services while carefully making tactical capacity reductions to manage fare revenue per seat and load factor. Long haul performance in the year was very positive, supported by strong underlying demand.

Total capacity as measured by ASKs increased by 1.1% with long haul capacity growing by 11.6% and short haul capacity decreasing 4.1%. Despite this increased capacity, overall passenger fare revenue increased by 0.9%.

€ million	2013	2012	% Increase/ (decrease)
Passenger fare revenue	1,170.6	1,159.8	0.9%
Passenger numbers ('000s) – excluding Aer Lingus Regional	9,625	9,653	(0.3%)
ASKs (million)	18,898	18,685	1.1%
Load factor	78.4%	77.7%	0.7 pts
Fare revenue per seat (€)	90.43	88.70	2.0%
Fare revenue per ASK (€cent)	6.19	6.20	(0.2%)
Fare revenue per passenger (€)	121.62	120.15	1.2%

Mainline short haul revenue

2013 short haul capacity was 4.1% lower than 2012 as a result of fleet changes (with two A319 aircraft replacing larger capacity A320s in both 2012 and 2013) and changes in our underlying route network which resulted in a shorter overall average sector length flown.

Mainline short haul fare revenue at €789.0 million was 3.3% lower than prior year due to:

- Exceptionally good weather conditions in Northern Europe in early Q3 2013 which impacted booking patterns.
- A significant increase in competitive intensity in the short haul pricing environment, also during Q3 2013. This negatively affected higher yielding in-month bookings, a pricing trend which continued into Q4 2013
- Adverse movements on FX rates, specifically the EUR/GBP FX rate. On a constant currency basis, we estimate short haul revenue would have been €8.1 million higher than that reported

These factors adversely impacted the 2013 trends in most of our mainline short haul revenue KPIs. However, effective capacity deployment resulted in a positive performance on fare revenue per ASK (up 0.8%) and mainline short haul load factor (up 0.2 points).

€ million	2013	2012	% Increase/ (decrease)
Short haul passenger fare revenue (€'m)	789.0	816.3	(3.3%)
Short haul passenger ('000s) – excluding Aer Lingus Regional	8,527	8,674	(1.7%)
Load factor	75.6%	75.4%	0.2pts
Fare revenue per seat (€)	67.88	68.67	(1.2%)
Fare revenue per ASK (€cent)	6.60	6.55	0.8%
Fare revenue per passenger (€)	92.53	94.11	(1.7%)

Mainline long haul revenue

The mainline long haul capacity growth in 2013 of 11.6%, was a result of the deployment of the additional A330 aircraft in summer 2013. Market conditions were positive and we sold the extra seats very effectively resulting in a 12.2% increase in passenger numbers and a 0.6 percentage point increase in load factor to 83.1%.

Overall mainline long haul fare revenue increased 11.1%. This increase was mainly volume driven with revenue per seat decreasing 0.2% as pricing adjusted to the extra capacity and the relatively weaker US\$/EUR FX rate adversely impact long haul revenue sourced in the US. Aer Lingus generates approx 60% of total long haul bookings in the US market. On a constant currency basis, we estimate that long haul revenue would have been €5.3 million higher than reported.

€ million	2013	2012	%Increase/ (decrease)
Long haul passenger fare revenue (€'m)	381.6	343.5	11.1%
Long haul passenger ('000s)	1,098	979	12.2%
Load Factor	83.1%	82.5%	0.6pts
Fare revenue per seat (€)	288.65	289.12	(0.2%)
Fare revenue per ASK (€cent)	5.50	5.52	(0.4%)
Fare revenue per passenger (€)	347.52	350.82	(1.0%)

Retail revenue

Retail revenue increased 2.8% on an overall basis and by 3.1% on a per passenger basis reflecting a positive performance on our “fare family” pricing options, online booking fees, seat selection and excess baggage charges. While retail revenue was ahead of 2012 in both H1 and H2 2013, retail revenue performance in the second half of the year was not as positive as we originally expected due to underlying volume weakness in our mainline short haul business.

In 2013, we launched a number of new retail revenue initiatives including pre-order meals on long and short haul services, refreshed inflight catering options, wi-fi on our long haul services as well as a new model for charging for hold baggage. We expect these initiatives to support continued retail revenue growth in 2014.

€ million	2013	2012	% Increase/ (decrease)
Retail revenue (€m)	181.5	176.5	2.8%
Retail revenue per passenger (€)	18.85	18.28	3.1%

Cargo revenue

Cargo revenue decreased by 4.6%, reflecting a 6.3% decrease in scheduled tonnes flown partly offset by an overall higher yield per tonne of 2.2% compared to 2012. The freight market remains extremely competitive but we will continue to focus on generating volume and yield for our cargo capacity.

€ million	2013	2012	% Increase/ (decrease)
Cargo revenue (€m)	43.6	45.7	(4.6%)
Cargo tonnes – scheduled ('000s)	26,354	28,140	(6.3%)
Cargo yield per tonne (€)	1,275	1,248	2.2%

Other revenue

Other revenue comprises income from our contract flying business as well as fees receivable from the Aer Lingus Regional franchise operation. Other revenue grew by 160.2% as a result of the commencement of contract flying operations in Q1 2013 and despite the cessation of the extended codeshare with United Airlines in October 2012.

€ million	2013	2012	% Increase/ (decrease)
Other revenue	29.4	11.3	160.2%

Operating costs

In 2013, our operating costs were driven higher mainly by positive developments in our business. These included the commencement of our UK domestic contract flying with Virgin (which broadly broke even in 2013 following the absorption of first quarter start-up costs) as well as the successful re-deployment of a seventh long haul aircraft onto our transatlantic network.

Summary operating costs

€ million	2013	2012	% Increase/ (decrease)
Fuel cost	357.3	358.6	(0.4%)
Staff costs	277.4	266.7	4.0%
Airport & en-route charges	359.4	356.7	0.8%
Other operating costs	369.9	342.2	8.1%
Total operating costs	1,364.0	1,324.2	3.0%

Fuel costs represented 26.2% of total operating costs in 2013 (2012: 27.1%). Fuel costs were marginally reduced in 2013 compared with 2012 as favourable movements in the US\$/EUR FX rate offset adverse price and volume movements. Total fuel tonnes uplifted in 2013 grew 2.2% due to the increase in long haul capacity offset by mainline short haul capacity reductions while the average fuel price per metric tonne (excluding into-plane fees) was US\$1,001 compared to US\$994 for 2012. The average US\$ FX rate however weakened from US\$1.29 to US\$1.32, offsetting the adverse uplift and price variances noted. An overview of fuel hedging for 2014 and 2015 is outlined later in our discussion of hedging arrangements.

Staff costs increased 4.0% owing to additional headcount required to support our contract flying operations and also due to the additional A330 aircraft deployed in our long haul fleet in summer 2013. Due to the relatively back ended timing of exits under the 2013 Voluntary Severance Programme (“VSP”), these exits had limited positive impact on 2013 staff costs. 124 employees will leave Aer Lingus under the VSP with a €5.3 million impact on employment costs. As at 31 December 2013, 119 employees had already left the Group.

Airport and en-route charges increased by 0.8% as price increases at some of our largest airports (including London Heathrow) were offset by favourable movements in FX rates, particularly Sterling which weakened 3.7% compared to the euro year on year.

Other Operating Costs

€ million	2013	2012	% Increase/ (decrease)
Maintenance costs	68.4	60.1	13.8%
Depreciation and amortisation	82.9	76.1	8.9%
Aircraft operating lease costs	45.2	46.1	(2.0%)
Distribution costs	47.0	47.0	0.0%
Ground operations and other costs	127.0	126.2	0.6%
Other (gains)/losses	(0.6)	(13.3)	(95.5%)
Total other operating costs	369.9	342.2	8.1%

Maintenance costs increased 13.8% due primarily to the volume impact of our contract flying business, the effect of the additional A330 long haul aircraft in our long haul fleet, increased costs from our heavy maintenance programme and higher de-icing costs in Q1 2013 due to adverse weather conditions at that time.

Depreciation and amortisation costs were 8.9% higher year on year. In 2013, we incurred depreciation of €3.0 million on the seventh A330 long haul aircraft. In addition, we had an A320 designated as held for sale in 2012 which was subject to an impairment charge and not depreciated. This aircraft was returned to our operational fleet at the end of 2012 to support our contract flying business and was therefore subject to depreciation charge throughout 2013.

Aircraft operating lease costs decreased by 2.0%. The decrease is due to:

- (i) Changes in our operating leased fleet: In 2012, we acquired two A319 aircraft on operating lease to replace two A320 aircraft returned to lessors. Also, in H1 2013, we introduced two further A319 aircraft, one of which replaced an A320 aircraft returned to lessor and the second which was redeployed on our contract flying business. These changes were partly offset by the acquisition of two A320 aircraft on operating leases in Q1 2013 to support our contract flying business.
- (ii) Favourable movements on FX rates: a weakening in the US\$/EUR FX rate had a positive impact on operating costs

Distribution costs remained flat year on year at €47 million. Higher credit card commission, Computer Reservation System / Global Distribution System ("CRS/GDS") fees and interline service charges were offset by reduced advertising spend. The proportion of CRS/GDS fees as part of the overall distribution channels increased in 2013 as we adjusted this mix to better access particular geographical markets where online booking engine penetration is lower than in Ireland and the UK.

Ground operations and other costs increased by just 0.6% as effective cost management offset increased activity in our long haul mainline and contract flying capacity.

Gains on our foreign currency hedging decreased 95.5% in 2013 as we replaced maturing US\$ hedging contracts (entered into at historically favourable rates in 2009) with new contracts (entered into at rates closer to current market prices). This reflects a significantly reduced differential between the average US\$ hedged and actual rates in 2012 and 2013, i.e. the differential between the average hedged and actual US\$ rates in 2013 was \$0.02 which compares to a much larger differential of \$0.10 in 2012. This is illustrated in the table below:

Other gains and losses	2010	2011	2012	2013
Average hedged rate – US\$/EUR	1.48	1.43	1.39	1.34
Average actual rate – US\$/EUR	1.33	1.40	1.29	1.32
Spread between hedged rate and actual rate	0.15	0.03	0.10	0.02
Total other gains/(losses) (€'million)	25.8	3.0	13.3	0.6

Overview of FX rates	31 December		Average during year	
Foreign currency rate	2013	2012	2013	2012
Euro/US\$	1.37	1.32	1.32	1.29
Euro/GBP	0.83	0.82	0.85	0.82

Net exceptional items

2013 net exceptional costs were €17.4 million comprising:

- €4.3 million relating to restructuring costs including the relocation of Shannon long haul line maintenance to Dublin, the conclusion of the Greenfield programme, outsourcing of the Group's HR function and other restructuring activity
- €8.9 million in respect of payments to 124 staff exiting the company under the 2013 voluntary severance programme. 119 staff had left as at 31 December 2013 with a further 5 staff committed to exit in 2014
- €6.1 million of professional and legal fees. These fees relate to bid defence costs associated with Ryanair's third takeover for Aer Lingus (which was launched in 2012 but concluded in 2013 with the announcement by the European Commission of its prohibition decision) and advisor fees and other expenses related to the ongoing efforts to place the provision of pension benefits in Aer Lingus on a sustainable basis
- The above amounts were offset by a gain of €1.9 million representing the profit on the sale of a spare engine net of a loss on disposal of other assets.

Finance income and expense

Net finance expense for 2013 was €4.2 million (2012: expense of €2.0 million). Finance expense of €15.1 million decreased by €1.6 million due to declining finance lease obligations as scheduled debt repayments continued during the year. Interest rates applicable to finance leases remained static in the year. Finance income of €10.8 million decreased by €3.9 million mainly reflecting the impact of lower deposit interest rates and a lower average level of gross cash held. Interest expense on post employment benefit obligations is included within finance expense and has remained relatively static year-on-year. The net interest charge on post employment benefit obligations reflects the change in basis of calculation arising from the adoption of IAS 19R from 1 January 2013 (see basis of preparation note). The comparative has been restated to reflect this impact.

€ million	2013	2012 (as restated)	% Increase/ (decrease)
Finance income	10.8	14.7	(26.5%)
Finance expense	(15.1)	(16.7)	(9.6%)
Net finance expense	(4.2)	(2.0)	(110%)
Average gross cash	964.6	996.8	(3.2%)
Average gross debt	510.5	560.7	(9.0%)
Average interest rate:			
Deposits	1.0%	1.4%	(0.4 pts)
Debt	2.5%	2.5%	0.0 pts

Tax charge

The total tax charge in the current year of €5.4 million primarily relates to movements in deferred tax with minimal cash taxes payable. The effective rate of 13.8% is influenced by permanent disallowable items.

€ million	2013	2012
Total tax charge	5.4	6.5
Effective tax rate	13.8%	16.1%
Carried forward tax losses	419.2	438.2

Cash flow, cash and debt

€ million	2013	2012
Gross cash	897.4	908.5
Gross debt	(477.6)	(531.6)
Net cash	419.8	376.9

Significant cash flow movements in 2013 are as follows:

Movements in gross cash	€'million
Cash from operations (Note 23)	101.1
Add back FX on deposits	11.1
Cash from operations before FX on deposits	112.2
Net capex	(31.4)
Net interest paid	(4.5)
Free cash flow	76.3
Debt repayments	(47.0)
Dividend paid	(21.2)
Accrued interest	3.8
Investment in Joint Venture	(10.7)
FX	(12.3)
Net movement on gross cash	(11.1)
Gross cash at 31 December 2012	908.5
Gross cash at 31 December 2013	897.4

Overall gross cash at 31 December 2013 of €897.4 million is €11.1 million lower than the €908.5 million recorded at 31 December 2012. Free cash flow of €76.3 million is €1.1 million higher than prior year (2012: €75.2 million) due to lower net capital expenditure and lower exceptional item cash flows. These favourable movements were offset by higher net interest payments owing to a decline in interest rates on deposits as noted above. Other movements impacting gross cash for 2013 included the 2012 dividend payment of €21.2 million, finance lease repayments of €47.0 million (2012: €45.2 million), investments in the aircraft leasing joint venture of €10.7 million and adverse FX of €12.3 million.

The Group expects capex outflows of approximately €60 million in 2014 due to higher spend on IT projects in the year.

Significant movements in gross debt in 2013 are as follows:

Movements in gross debt	€'million
Gross debt at 31 December 2012	(531.6)
Interest accrued	(5.1)
Debt repaid	47.0
FX	12.1
Gross debt at 31 December 2013	(477.6)

Gross debt comprises finance leases secured on individual aircraft. At 31 December 2013, approximately 66% of gross debt was denominated in US\$. The Group however holds an equivalent amount of gross cash in US\$ to mitigate the potential impact of FX on the financial statements, hence the offsetting FX impacts on gross cash and gross debt noted above.

Debt repayment schedule

The Aer Lingus debt maturity profile extends until 2023. In 2013, we made finance lease repayments of €47.0 million. Our finance lease repayment schedule from 2014 through the remainder of the lease terms, at the 31 December 2013 US\$/EUR FX rate, is as follows:

€million	2014	2015	2016	2017	2018	Later
Finance lease repayments	114	84	27	29	65	159

Fuel, currency and emissions hedging

In order to achieve greater certainty on costs, we manage our exposure to fluctuations in the market prices of fuel and foreign currency through hedging. Aer Lingus applies a systematic hedging approach to both fuel and currency hedging whereby an approved proportion of the Group's outstanding fuel and currency requirements are hedged on a monthly basis thereby mitigating short term volatility in income statement items affected by spot fuel and currency prices.

During 2013, the fair value of fuel contract open positions increased significantly due to the fact that fuel prices were circa US\$10 per metric tonne higher than at 31 December 2012 and the Group's hedge positions were at more attractive rates. However, during 2013 the value of the Group's foreign exchange hedges decreased significantly mainly due to a weakening of the US Dollar against the euro.

At 31 December 2013 our estimated fuel requirements for 2014 and 2015 were approximately 490,000 and 500,000 metric tonnes in each year respectively which were hedged as follows:

Fuel hedging	2014	2015
% expected fuel requirement hedged	61%	7%
Average price per tonne US\$ (excluding into-plane costs)	956	930

Our main foreign currency exposure is to the US\$. At 31 December 2013, our forward purchases of US\$ comprised:

US\$ hedging	2014	2015
Forward purchases of US\$ (US\$ million)	179.0	84.0
Average rate (US\$ to EUR)	1.33	1.34

At 31 December 2013, we had sold GBP€56.5 million forward for 2014 at an average rate of GBP€0.84. In addition, we had US\$235 million hedged against part of the cost of nine new A350 aircraft due for delivery in the period 2018 to 2020 at an average rate of US\$1.39.

The EU emissions trading system ("EU ETS") became effective for airlines from 1 January 2012 requiring that all flights departing from or arriving at EU airports attract a charge for a portion of their carbon emissions. This charge is to be met by submission to the EU of "carbon allowances", and aircraft operators have been provided with a portion of their allowance requirement as a "free" allocation based upon their share of total EU activity in 2010. On 21 January, 2014 the Transport Committee of the European Parliament voted in favour of extending a 2012 moratorium on the ETS scheme in respect of flights which were not entirely within the EU. Such extension is proposed until 2016 emissions and requires a further vote by the EU to pass into law. Aer Lingus is compliant with EU ETS derogated requirements for 2013 and has received free allowances equivalent to approximately 78% of its 2013 requirement. The balance of the 2013 requirement (i.e. approx 22%) was purchased for €0.9 million.

A portion of the Aer Lingus carbon allowances for 2014 has been purchased already, and assuming a derogated scheme is in place and associated free allocation, we estimate that the ETS cost of compliance in 2014 would be circa €1.5 million based on carbon prices of €4.85 per tonne at the reporting date.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of shares in issue during the year, excluding treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2013, dilutive potential ordinary shares relate to share options granted that have satisfied specific performance conditions as set out in the underlying option agreement. The weighted average number of dilutive potential ordinary shares in existence for purposes of 2013 diluted EPS was 4.6 million (2012: 0.2 million).

Earnings per share	2013	2012 (as restated) ¹
Profit attributable to owners of the parent (€ million)	34.1	33.9
Weighted average number of ordinary shares in issue ('000s)	531,822	530,093
Dilutive effect of options and long term incentive plan ('000s)	4,597	158
Weighted average number of ordinary shares for dilutive earnings per share (000s)	536,419	530,251
Basic and diluted earnings per share	6.4	6.4

¹ The 2012 result is restated for the effect of applying IAS19R (see basis of preparation note). The impact is a reduction in profit of €175,000.

Capital reduction

In 2011, Aer Lingus commenced a process to create additional distributable reserves in Aer Lingus Group plc with a view to improving flexibility for the future. At the time, Aer Lingus Group plc could not make a distribution to shareholders in excess of €57.4m, which was the total amount of that company's retained earnings at that time.

As Aer Lingus Group plc is a holding company and does not trade in its own right, it can normally only add to or replenish retained earnings by means of dividends paid to it from its subsidiary companies. However, Aer Lingus Limited, which is the main operating subsidiary in the Aer Lingus group of companies, is itself unable to pay dividends due to the level of its accumulated realised losses. This means that Aer Lingus Limited would be unable to pay dividends to its parent, Aer Lingus Group plc, until it earns sufficient profits to eliminate the deficit on its retained earnings account, and has accumulated sufficient distributable reserves to finance the payment of dividends.

Irish company law enables a company, subject to shareholder approval and the approval of the High Court (the "Court"), to create distributable reserves through the cancellation of amounts currently shown as non-distributable reserves in that company's balance sheet. On this basis, the directors of Aer Lingus Group commenced a process in 2011 to create additional distributable reserves in Aer Lingus Group plc's balance sheet through a capital reduction.

On 4 November 2011, Aer Lingus shareholders approved a special resolution at an EGM to take the necessary steps to seek the approval of the High Court (the "Court") to create up to €500 million of distributable reserves on the balance sheet.

The matter was heard by the Court in July 2012. Objections were made by both the IASS Trustee and the Trustee of the Pilots' Scheme. Following a review of submissions from all parties, on 15 March 2013, the Court approved the creation of distributable reserves as requested. The effect of the creation of €500 million of distributable reserves has been the corresponding reduction in the capital conversion reserve fund and the capital redemption reserve fund (in each case reduced to nil), along with a further balancing reduction to the share premium account. The Court made a condition that no distribution should be made which would leave the remaining aggregated distributable and non-distributable reserves of Aer Lingus at an amount less than the aggregate of the deficits in the IASS and the Pilots' Scheme, as relating to current and former Aer Lingus employees, without 28 days prior notice being given by Aer Lingus to the corporate trustees of each of the IASS and Pilot's Scheme. The requirement to give notice of distribution does not preclude Aer Lingus from making a distribution.

Significant balance sheet movements

The Group's balance sheet remains strong, with distributable reserves increased in the year through retained earnings and the capital reduction exercise.

Aer Lingus has net assets of €852.8 million as at 31 December 2013 (2012: €834.7 million). While gross cash balances decreased by €11.1 million to €897.4 million (2012: €908.5 million), the Group's net cash position increased by €42.9 million to €419.8 million (2012: €376.9 million) due to a reduction in finance lease debt driven by scheduled repayments in the year.

The following significant balance sheet movements also occurred in 2013:

- Net capital expenditure of €31.4 million, largely driven by the acquisition of aircraft engines, capitalised aircraft maintenance, facility upgrades and other equipment costs. The depreciation charge in the year more than offsets this expenditure, leading to a reduction in the carrying amount of the Group's fixed assets.
- Provisions decreased by €8.1 million, mainly due to the settlement in the year of restructuring obligations existing at 2012 year end.
- Trade receivables increased by €17.0 million mainly due to increases in prepayments to suppliers linked to changes in commercial terms agreed with these suppliers.
- Finance lease payables reduced by €54.0 million following scheduled repayments in the year and the impact of favourable FX movements.
- Post retirement benefit obligations reduced by €6.6 million, mainly due to favourable movements in actuarial assumptions regarding the rates at which the liabilities are discounted and demographic factors.

- The Group made further investment in a leasing company in which it holds a 33% stake (“the Joint Venture”). At 31 December 2013, the carrying value of the Group’s interest in the Joint Venture was €13.9 million. Refer to Note 10 for further details.
- The net derivative hedging balance sheet position improved by €3.4 million year on year. The market value of the outstanding fuel derivatives contracts has risen due to further fuel price increases in comparison to 2013, partially offset by a reduction in the value of foreign exchange contracts, due to unfavourable movements in the euro/US\$ exchange rate.
- Retained earnings (and therefore distributable reserves) has increased by an additional €500 million over retained profit for the year following the order by the High Court on 15 March 2013 confirming a corresponding reduction in certain of the other reserves of Aer Lingus Group plc.

Quarterly trading review of 2013

Introduction

The story of Aer Lingus’ performance in 2013 was characterised by varying revenue and cost trends in each quarter of the year. Our quarterly results and the primary performance features of each quarter are summarised in the table and accompanying analysis below. Seasonality remains a feature of our business, with the second and third quarters still our busiest periods.

Summary of 2013 by quarter

€ million	Q1	Q2	Q3	Q4	Full Year
Short haul revenue	149.5	222.4	259.9	157.2	789.0
Long haul revenue	60.3	106.2	131.3	83.8	381.6
Retail revenue	36.5	50.6	56.0	38.4	181.5
Total passenger revenue	246.3	379.2	447.2	279.4	1,352.1
Cargo revenue	11.5	10.8	9.9	11.4	43.6
Other revenue	1.9	8.2	9.2	10.1	29.4
Total Revenue	259.7	398.2	466.3	300.9	1,425.1
Fuel costs	(72.3)	(103.3)	(103.7)	(78.0)	(357.3)
Staff costs	(64.7)	(73.2)	(72.1)	(67.4)	(277.4)
Airport charges	(59.1)	(83.6)	(88.9)	(67.1)	(298.7)
Other operating costs	(109.1)	(109.0)	(106.7)	(105.8)	(430.6)
Total operating costs	(305.2)	(369.1)	(371.4)	(318.3)	(1,364.0)
Operating profit/(loss) before exceptional items	(45.5)	29.1	94.9	(17.4)	61.1
Operating margin	(17.5%)	7.3%	20.4%	(5.8%)	4.3%
Operating profit/(loss) before exceptional items (2012)	(36.1)	31.7	90.9	(17.4)	69.1
Key performance indicators					
Passengers	1,905	2,665	2,913	2,142	9,625
Average fare revenue per passenger	110.13	123.28	134.28	112.56	121.62
Load factor	71.4%	78.4%	85.5%	75.1%	78.4%

Q1 2013

Aer Lingus reported an operating loss of €45.5 million which was €9.4 million greater than that reported in Q1 2012. Total quarterly revenue of €259.7 million was 3.3% ahead of Q1 2012 driven primarily by a 14.4% increase in long haul fare revenue. Operating costs however increased by 6.1%. This increase was attributable to significant changes to our business in the quarter which included the introduction of the additional A330 aircraft into our mainline fleet. In addition, we incurred start-up costs associated with the new contract flying business. These changes generated only limited income in the quarter. In addition, we incurred certain once-off maintenance costs and experienced weaker trading on UK routes. These factors further contributed to the increased quarterly loss year-on-year despite Easter falling in Q1 2013 compared to Q2 in 2012.

Q2 2013

The Group traded positively from a revenue perspective in Q2 2013. However, this was offset by higher quarterly operating costs than in Q2 2012 reflecting the ongoing impact of business changes introduced in Q1 2013. This resulted in an operating profit of €29.1 million which was €2.6 million below prior year.

Total revenue increased 6.2% with long haul fare revenue up 16.2% and short haul fare revenue up 1.1%. Total average fare revenue per seat increased 4.8%. Retail revenue grew with other revenue increasing significantly due to income from our contract flying operations which commenced operating in the quarter.

Total operating costs increased 7.6% as the impact of the additional A330 aircraft in our long haul fleet and operating costs associated with our contract flying business resulted in higher fuel, staff costs, maintenance and overheads. In addition, gains on our foreign exchange hedging were lower year-on-year as the hedging contracts which we entered into in previous years at historically favourable rates were being replaced with contracts carrying hedge rates closer to market values.

On a cumulative basis at the end of June 2013, our first half operating result was €12.0 million adverse to the first half of 2012 but ahead of our own internal expectations for the first six months of the year. At the time we released our first half results announcement, we acknowledged that our short haul booking profile had somewhat eroded as a result of the good weather then being experienced. However, the market environment at the time was such that we still expected to deliver an operating result which would be broadly in line with the €69.1 million reported in respect of 2012.

Q3 2013

Aer Lingus delivered a strong performance in Q3 2013, reporting an operating profit of €94.9 million which was €4.0 million (or 4.4%) ahead of prior year. Total revenue increased 1.2% with mainline long haul revenue up 12.4% retail revenue up 5.1% and other revenue up 100.0% offsetting a decrease of 5.8% in mainline short haul fare revenue. The weaker mainline short haul revenue performance reflected the adverse impact of exceptionally good weather conditions across Europe as well as a more competitive fare pricing environment in the quarter. We responded to the good weather and the changed competitive dynamic with keener fare offerings. However, our booking profile at the end of the quarter was such that it would not be possible to recover passenger volumes lost over the remainder of 2013. As a result, we issued a trading update to the market on 13 September 2013 which stated that 2013 operating profit before net exceptional items would be around €60 million. In the event, full year operating profit was €61.1 million and in line with this guidance.

Operating costs were managed effectively in the quarter, increasing by just 0.4% despite an increase in overall capacity deployed of 2.9%. Fuel costs decreased 3.0% as favourable movements in the US\$/EUR FX rate offset volume increases from the increased capacity and we also incurred lower airport charges and overheads. However, staff costs increased by 3.1% due to additional headcount required to support the additional A330 long haul aircraft and contract flying operations. Other costs increased by 1.3% as a result of higher depreciation. We also reported a reduction in gains generated by our foreign exchange hedging.

At the end of September 2013, our cumulative year to date operating profit was €78.4 million, which was 9.4% or €8.1 million below the first nine months of 2012. In our Q3 2013 results announcement, we maintained the guidance issued on 13 September in respect of the full year 2013 operating result, i.e. around €60 million.

Q4 2013

In Q4 2013, we recorded an operating loss of €17.4 million which was in line with the €17.4 million operating loss recorded in Q4 2012. Total revenue decreased 1.7% year on year while total operating costs decreased 1.6%. Discounted fare offerings across Europe by competitors continued to be a significant feature of the short haul market in Q4 which put downward pressure on our own pricing and particularly our close-in yields. In response to these intensely competitive market dynamics, we acted proactively to protect margin by reducing capacity and therefore costs on our short haul network. Short haul ASKs reduced by 4.3% compared to Q4 2012.

Passenger fare revenue of €241.0 million decreased 5.2% compared to Q4 2012 driven by a 2.8% reduction in passengers carried and a 2.0% reduction in fare revenue per seat. In total, short haul capacity decreased by 4.3% year on year in Q4 2013. Mainline short haul passenger fare revenue decreased 8.6% to €157.2 million as a result of a 4.0% decline in passenger numbers and a 4.2% decline in fare revenue per seat. Mainline long haul on the other hand continued to trade positively with fare revenue up 1.8% to €83.8 million and passengers carried up 6.9% year on year. Average fare revenue per seat declined 6.2% as pricing adjusted to additional capacity deployed of 8.7%. Aer Lingus traded generally well over the Christmas 2013 travel period.

Retail revenue declined 0.8% to €38.4 million driven by the lower year on year passenger volumes while other revenue increased €8.9 million to €10.1 million as a result of additional revenue from our contract flying operations. Cargo revenue was 5.8% lower.

Operating costs decreased 1.6% to €318.3 million primarily as a result of lower fuel, overheads and ground operations and maintenance costs. Lower fuel costs was the main contributor to the overall cost reduction year on year. Fuel costs decreased €5.8 million as a result of favourable price and FX variances while ground operations and other overhead costs reduced as a result of lower short haul activity given the 4.3% capacity reduction noted above. Offsetting these cost decreases were increases in staff costs associated with additional headcount year on year to support our contract flying operations and increased long haul capacity deployment and a reduction in gains on our foreign currency hedging.

Consolidated income statement (unaudited)

Year ended 31 December

	Note	2013 €'000	2012 as restated €'000
Revenue	2	1,425,115	1,393,284
Operating expenses (before net exceptional items)			
Staff costs		277,353	266,764
Depreciation and amortisation		82,927	76,079
Aircraft operating lease costs		45,182	46,137
Fuel and oil costs		357,338	358,560
Maintenance expenses		68,419	60,096
Airport charges		298,678	295,336
En-route charges		60,689	61,391
Distribution charges		46,978	46,957
Ground operations, catering and other operating costs		126,995	126,240
Other gains - net	3	(588)	(13,330)
		1,363,971	1,324,230
Operating profit before net exceptional items		61,144	69,054
Net exceptional items	4	(17,354)	(26,466)
Operating profit after net exceptional items		43,790	42,588
Finance income	5	10,837	14,661
Finance expense	5	(15,075)	(16,664)
		(4,238)	(2,003)
Share of profit/(loss) of Joint Venture	10	6	(190)
Profit before tax		39,558	40,395
Income tax charge	6	(5,470)	(6,543)
Profit for the year		34,088	33,852
Profit attributable to:			
- owners of the parent		34,088	33,852
Profit per share for profit attributable to the owners of the parent (expressed in cent per share)			
- basic and diluted	7	6.4	6.4

Consolidated statement of comprehensive income (unaudited)

Year ended 31 December		2013	2012
	Note	€'000	as restated €'000
Profit for the year		34,088	33,852
Other comprehensive income			
Items which may be reclassified to the income statement			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve	5	(161)	(147)
- Deferred tax on amortisation of available-for-sale reserve		20	18
Cash flow hedges			
- Fair value losses		(8,366)	(5,836)
- Deferred tax on fair value losses		1,046	729
- Transfer to fuel costs		255	(2,462)
- Deferred tax on transfer to fuel costs		(32)	308
- Transfer to other gains/losses - net		4,667	(12,973)
- Deferred tax on transfer to other gains/losses - net		(583)	1,622
Total of items which may be reclassified to the income statement		(3,154)	(18,741)
Items which will not be reclassified to the income statement			
Gain/(loss) on remeasurements of post employment benefit obligations – net of deferred tax impact:			
Effect of changes in demographic assumptions		1,301	(74)
Effect of changes in financial assumptions		2,777	(5,702)
Effect of experience adjustments		3,273	1,708
Total of items which will not be reclassified to the income statement		7,351	(4,068)
Total comprehensive profit for the year		38,285	11,043
Total comprehensive profit attributable to:			
- owners of the parent		38,285	11,043

Consolidated statement of financial position (unaudited)

As at 31 December		2013	2012
		€'000	€'000
ASSETS	Note		as restated
Non-current assets			
Property, plant and equipment	8	689,447	741,087
Intangible assets	9	14,444	12,447
Investment in Joint Ventures	10	13,933	10,764
Loans and receivables	13	11,742	43,373
Derivative financial instruments	11	1,268	1,007
Trade and other receivables	12	43,278	33,133
Deferred tax asset	20	-	1,330
Deposits	13	101,752	119,716
		875,864	962,857
Current assets			
Inventories		2,536	2,235
Loans and receivables	13	31,887	-
Derivative financial instruments	11	10,125	4,539
Trade and other receivables	12	73,526	66,654
Current income tax receivables		-	3
Deposits	13	563,229	432,504
Cash and cash equivalents	13	188,805	312,939
		870,108	818,874
Total assets		1,745,972	1,781,731
EQUITY			
Called-up share capital	21	26,702	26,702
Share premium	22	359,449	510,605
Capital conversion reserve fund	22	-	5,048
Capital redemption reserve fund	22	-	343,796
Other reserves		7,126	7,583
Retained earnings		459,490	(59,023)
Total equity		852,767	834,711
LIABILITIES			
Non-current liabilities			
Finance lease obligations	15	363,277	489,608
Derivative financial instruments	11	215	846
Post employment benefit obligations	17	28,254	34,858
Provisions for other liabilities and charges	18	57,627	55,138
Deferred tax liability	20	3,864	-
		453,237	580,450
Current liabilities			
Trade and other payables	14	292,268	283,639
Finance lease obligations	15	114,321	41,979
Derivative financial instruments	11	14,274	11,220
Provisions for other liabilities and charges	18	19,105	29,732
		439,968	366,570
Total liabilities		893,205	947,020
Total equity and liabilities		1,745,972	1,781,731

Consolidated statement of changes in equity (unaudited)

All movements are attributable to the owners of the parent.

	Called-up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Cash flow hedging reserve	Available- for-sale reserve	Treasury shares	Share based payment reserve	Retranslation reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2012	26,702	510,605	5,048	343,796	25,681	393	(5,615)	2,900	-	(72,789)	836,721
Profit for the year (as restated)	-	-	-	-	-	-	-	-	-	33,852	33,852
Other comprehensive loss for the year (as restated)	-	-	-	-	(18,612)	(129)	-	-	-	(4,068)	(22,809)
Total comprehensive income/(loss) for the year	-	-	-	-	(18,612)	(129)	-	-	-	29,784	11,043
Exercise of LTIP awards	-	-	-	-	-	-	-	-	-	(16,018)	(16,018)
Share based payment reserve	-	-	-	-	-	-	-	3,389	-	-	3,389
Deferred tax impact	-	-	-	-	-	-	-	(424)	-	-	(424)
Balance at 31 December 2012	26,702	510,605	5,048	343,796	7,069	264	(5,615)	5,865	-	(59,023)	834,711
Balance at 1 January 2013	26,702	510,605	5,048	343,796	7,069	264	(5,615)	5,865	-	(59,023)	834,711
Profit for the year	-	-	-	-	-	-	-	-	-	34,088	34,088
Other comprehensive (loss)/income for the year ended 31 December 2013	-	-	-	-	(3,013)	(141)	-	-	-	7,351	4,197
Total comprehensive (loss)/income for the year	-	-	-	-	(3,013)	(141)	-	-	-	41,439	38,285
Exercise of share awards	-	-	-	-	-	-	2,728	(3,607)	-	(1,640)	(2,519)
Share based payment reserve	-	-	-	-	-	-	-	3,219	-	-	3,219
Deferred tax impact	-	-	-	-	-	-	-	838	-	-	838
Retranslation of investment in Joint Venture (see note 10)	-	-	-	-	-	-	-	-	(481)	-	(481)
Dividends Paid (4 cent per share)	-	-	-	-	-	-	-	-	-	(21,286)	(21,286)
Capital reduction (see note 22)	-	(151,156)	(5,048)	(343,796)	-	-	-	-	-	500,000	-
Balance at 31 December 2013	26,702	359,449	-	-	4,056	123	(2,887)	6,315	(481)	459,490	852,767

Consolidated statement of cash flows (unaudited)

Year ended 31 December		2013	2012
	Note	€'000	€'000
Cash flows from operating activities	23	101,088	118,508
Income tax paid		(19)	(37)
Net cash generated from operations		101,069	118,471
Cash flows from investing activities			
Purchases of non-current assets (net of lease finance raised)		(33,902)	(41,132)
Investment in Joint Venture		(10,715)	(2,514)
Proceeds from sales of property, plant and equipment		2,535	50
Decrease/(increase) in deposits		(98,066)	39,089
Interest received		3,652	7,471
Net cash generated from (used in) investing activities		(136,496)	2,964
Cash flows from financing activities			
Repayments of finance lease obligations		(47,043)	(45,196)
Interest paid		(8,116)	(9,692)
Dividends paid		(21,286)	(16,018)
Net cash used in financing activities		(76,445)	(70,906)
Net increase/(decrease) in cash and cash equivalents		(111,872)	50,529
Cash, cash equivalents at 1 January		312,939	264,495
Exchange losses on cash and cash equivalents		(12,262)	(2,085)
Cash, cash equivalents at 31 December	13	188,805	312,939

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 2013 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRS Interpretations Committee (IFRS IC) interpretations and those parts of the Companies Acts 1963 to 2013 applicable to companies reporting under IFRS. The financial information for the years ended 31 December 2013 and 31 December 2012 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 for the changes in accounting policies which are set out in the "significant accounting policies" section below. The preparation of this 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 reporting and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge at the time of making them, 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 and is unaudited. A copy of the statutory consolidated financial statements is required to be annexed to the annual return to the Companies Registration Office in Ireland. A copy of the statutory consolidated financial statements in respect of the year ended 31 December 2012 has been so annexed. A copy of the statutory consolidated financial statements in respect of the year ended 31 December 2013 will be annexed to the Group's annual return for 2013. The directors expect to approve the statutory consolidated financial statements for the year ended 31 December 2013 in March 2014. The independent auditors' report on the full statutory consolidated financial statements for the year ended 31 December 2013 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 are outstanding at the reporting date. These provisions are made based on historical or other relevant information, adjusted for recent trends where appropriate. However, provisions represent estimates of the financial costs of events that may not occur for some years. Measurement uncertainty associated with aircraft maintenance provisions also arises from the timing and nature of overhaul activity required and sensitivity in projected flight hours. As a result of this and the level of uncertainty attaching to the final outcomes, the actual results may differ significantly from those estimated.

(b) Post employment benefits – Irish Airlines (General Employees) Superannuation Scheme and the Irish Airlines (Pilots') Superannuation Scheme (collectively the "Irish pension schemes")

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 Aer Lingus Limited ("the Company"), the Company 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 (Revised)* ("IAS 19R"), 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 Company's contributions based on the funding status of the Irish Pension Schemes were to arise, IAS 19R would require the Company 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 Note 16 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). As this assessment involves long term projects which may not be realised, this is an area of judgement for management.

(d) Recoverability of deferred tax assets

The Group recognises tax assets where there is a reasonable expectation that those assets will be recovered. The assessment of the recoverability of deferred tax assets involves significant judgement. The main deferred tax asset recognised by the Group relates to unused tax losses. The directors assess the recoverability of tax losses by reference to future profitability and tax planning, including fleet management decisions.

(e) Share based payments

The determination of the fair value of awards under the long term incentive plan, and of the share options and awards granted to the CEO involve the use of judgement and estimates. Their fair values have been estimated using binomial lattice or Monte Carlo simulation models.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets (for example, "over the counter" derivatives) is determined by using valuation techniques. The Group exercises judgement in selecting valuation methods and makes assumptions that are mainly based on observable market data and conditions existing at each reporting date. Further judgement is exercised by management in considering the probability of occurrence for underlying hedge transactions, in particular the likelihood and timing of future fuel, US Dollar and aircraft purchases.

(g) *Estimation of residual values of aircraft*

The Group has determined the residual values of its aircraft as being 10% of original cost. The Group periodically examines its estimate of residual values in light of results of actual aircraft disposals and changing market conditions.

Significant accounting policies

The accounting policies adopted in the preparation of the financial information are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, with the exceptions set out below.

(i) Lessor accounting

Following the launch of the Group's contract flying services during the year, the Group acts as an operating lessor of aircraft, including crew and other services. Amounts in respect of these leases are billed in advance and recorded as deferred revenue. Revenue and costs are recognised as the services are provided, with the costs associated with this revenue recognised within the relevant income statement categories (staff costs, maintenance, depreciation, aircraft hire and overheads). Revenue is recorded within other revenues.

(ii) Change in accounting policy – adoption of IAS 19, Employee Benefits (revised)

IAS 19, Employee Benefits (Revised) ("IAS 19R") has been adopted retrospectively in the financial information, including restatements to comparative information.

The main impact of the adoption of IAS 19R on the financial results of the Group is in the calculation of finance income and charges in respect of post employment benefit obligations. The previous practice of recognising the expected return on plan assets (presented within finance income) and separately the interest expense on the post employment benefit obligation (presented within finance expense) is now replaced by the calculation of a single interest amount on the net post employment benefit liability (or asset) using the discount rate adopted at the beginning of the period.

IAS 19R introduces a new term "remeasurements", which describes the total of actuarial gains and losses, and the difference between actual investment returns and the returns implied by the net interest cost.

There is no change in the method of determining the interest rate, which continues to reflect the yield of high quality corporate bonds of comparable maturity to the liabilities of the Group's post employment benefit obligations. The adoption of IAS 19R has increased the loss before taxation as the discount rate applied to plan assets in calculating finance income under IAS 19R is lower than the rate previously used to calculate expected return on plan assets.

The restatement has no effect on total comprehensive income, as the restated finance charge in the income statement is offset by a corresponding adjustment to remeasurements of post employment benefit arrangements in other comprehensive income. The restatement had no impact on the consolidated statement of financial position, or statement of changes in equity. The effects of these changes on each of the impacted financial statement captions in the 2012 financial statements are set out in the table below.

Year ended 31 December 2012

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Income statement			
Finance income			
Finance income on post employment benefit assets	642	(642)	-
Finance expense			
Interest expense on post employment benefit obligations	(1,538)	467	(1,071)
Profit before taxation	40,570	(175)	40,395
Other comprehensive income			
Loss on remeasurement of post employment benefit obligations	4,243	(175)	4,068
Statement of cashflows			
Profit before taxation	40,570	(175)	40,395

IAS 19R also requires that past service costs be recognised immediately through profit or loss when they occur, rather than be spread over the remaining estimated working lives of employees. This change has had no effect on the current or comparative reporting period.

IAS 19R provides revised guidance on recognition of termination benefits. A liability for these expenses is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits, or when the entity recognises costs of restructuring that are within the scope of IAS 37 and involve the payment of termination benefits. There was no impact on the prior year as a result of this revised guidance.

During the year, the Group recognised an exceptional charge of €8.9 million in respect of a voluntary severance scheme which was announced in its Q1 Interim Management Statement, representing termination costs under IAS 19R in respect of those employees who had exited or had committed to exit the business by the year end under voluntary severance. This charge, and the charge of €1.0 million in respect of severance under the Greenfield cost reduction programme, is in respect of employees who had accepted the offer of voluntary severance at the reporting date. See Note 4 for further information.

(iii) Change in accounting policy – adoption of IFRS 13 Fair value measurement

The Group has included the disclosures required under IFRS 13 Fair value measurement ("IFRS 13"). See Note 11 for details. IFRS 13 has not had a significant impact on the results or financial position of the Group.

(iv) Amendment to IAS 1, “Financial Statement Presentation” regarding other comprehensive income

The Group has included the disclosures required by the amendments to IAS 1, which groups items presented in the statement of other comprehensive income on the basis of whether or not they will potentially be reclassified to the income statement in future periods.

IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

(v) Reclassification between current and non-current assets

At 31 December 2013, lease premiums of €8,368,000 and aircraft deposits of €13,398,000 are presented as “other debtors” within non-current assets, as the amounts are not expected to be respectively released to the income statement or recovered within 12 months of the reporting date. For consistency, the equivalent amounts at 31 December 2012 have been restated within the statement of financial position, leading to a reclassification of €9,317,000 of lease premiums and €7,958,000 of aircraft deposits (total of €17,275,000) from current assets to non-current assets.

Year ended 31 December 2012			
	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Non-current assets			
Trade and other receivables	15,858	17,275	33,133
Current assets			
Trade and other receivables	83,929	(17,275)	66,654

1 Segment information

Based on the way in which the Group manages the network and the manner in which resource allocation decisions are made, the Group considers that its operating segments comprise the routes on which passengers and cargo are transported. Having assessed the aggregation criteria contained in IFRS 8 Operating Segments and considering how the Group manages its business and allocates resources, the Group has determined that it has one reportable segment. In particular, the Group is managed as a single business unit that provides air transportation for passengers and cargo, which allows the Group to benefit from an integrated revenue pricing and route network. The Group’s flight equipment is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker (the Group’s CEO) evaluates route profitability data, which considers passengers flown across the network, aircraft type and route economics.

Total segment assets exclude investment in joint venture, 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 assets reported in the statement of financial position.

Segment revenue of €1,425.1 million (2012: €1,393.3 million) is wholly derived from external customers. Of this figure, the amount attributable to customers within Ireland was €782.9 million (2012: €781.0 million). Depreciation and amortisation of €82.9 million (2012: €76.1 million) is included in the operating profit reviewed by the chief operating decision maker.

A reconciliation of the reportable segment’s operating result as reviewed by the chief operating decision maker to the Group’s results as reported in the Income Statement is as follows:

	2013	2012
		as restated
	€'000	€'000
Adjusted operating profit before net exceptional items, interest and tax for the reportable segment	54,785	65,842
Miscellaneous group level adjustments	6,359	3,212
Net exceptional items	(17,354)	(26,466)
Operating profit after net exceptional items	43,790	42,588
Finance income	10,837	14,661
Finance expense	(15,075)	(16,664)
Share of profits/(losses) of joint venture	6	(190)
Profit before tax	39,558	40,395

The chief operating decision maker assesses operating segment performance based on a measure of adjusted operating profit before net exceptional items. This measure excludes franchise and contract flying results and post close adjustments arising from the finalisation of the financial statements. These are aggregated in the 'miscellaneous group level adjustments' caption above. Interest income and expense are not included in the segmental results reviewed by the chief operating decision maker.

The reportable segment's assets are reconciled to total assets as below. Substantially all of the Group's non-current assets are located in Ireland.

	2013	2012
	€'000	€'000
Total segment assets	834,624	861,105
Investments in joint venture	13,933	10,764
Deferred tax asset	-	1,330
Loans and receivables	43,629	43,373
Deposits	664,981	552,220
Cash and cash equivalents	188,805	312,939
Total assets	1,745,972	1,781,731

2 Revenue

	2013	2012
	€'000	€'000
Passenger revenue	1,170,614	1,159,853
Ancillary revenue	181,444	176,466
Cargo revenue	43,639	45,670
Other revenue	29,418	11,295
Total revenue	1,425,115	1,393,284

Other revenue includes franchise fee revenue from the Aer Lingus Regional operation as well as revenues from contract flying services which commenced in 2013.

3 Other gains - net

	2013	2012
	€'000	€'000
Realised losses/(gains) on forward foreign currency contracts	1,596	(11,888)
<u>Net foreign exchange gains on operating activities</u>	(2,184)	(1,442)
	(588)	(13,330)

4 Net exceptional items

Exceptional losses comprise:

	2013	2012
	€'000	€'000
Disposal or impairment of non-current assets (a)	1,943	(3,952)
Restructuring and termination costs (b)	(13,184)	(17,191)
Professional and legal fees (c)	(6,113)	(9,797)
Reduction of impairment provision (d)	-	4,830
ESOT profit share obligation	-	20
Other (e)	-	(376)
	(17,354)	(26,466)

(a) The gain in 2013 represents a profit on disposal of a spare engine (€2.2 million), net of a loss on disposal of other assets of €0.3 million. The 2012 charge comprised €2.2 million impairment of an A320 aircraft which was written down to market value on classification to hold for sale during 2012 but in December 2012 was brought back into the fleet and the impairment of other assets no longer expected to be utilised (€1.8 million).

(b) Restructuring and termination costs

Restructuring

The 2013 charge includes €1.0 million arising from further downsizing in Shannon line maintenance following operational decisions regarding the maintenance of Boeing 757 aircraft. A further €1.1 million represents additional costs relating to the conclusion of the Group's Greenfield cost reduction programme. The charge in respect of Greenfield severance is in respect of employees who have, at the period end, accepted the offer of voluntary severance.

A charge of €1.1 million relates to the costs of outsourcing the Group's HR function, and a further €1.1 million to other severance costs in respect of other organizational change.

The comparative amounts related to the recognition in 2012 of a provision of €9.9 million in respect of the restructuring of the Group's maintenance operation at Shannon, comprising onerous lease and related property costs (€2.1 million) and employee severance costs (€7.8 million). The balance related to additional provisions for restructuring costs associated with the Greenfield programme (€4.1 million) and Migration/Outsourcing Schemes (€3.2 million).

Termination

On 25 April 2013, Aer Lingus launched a Voluntary Severance Programme (the "Programme") for applicants who satisfied certain selection criteria. The target of the Programme was to reduce employee headcount levels by approximately 100 by the end of 2013. The closing date for applicants was 7 June 2013, and no new applications are currently being taken.

As at 31 December 2013, 119 applicants had been accepted and had left employment with Aer Lingus. A further 5 applicants have formally agreed to participate in the Programme and leave employment with Aer Lingus during 2014. The related severance cost, including provisions, for these Programme participants of €8.9 million represents a termination cost under IAS 19R and is recognised within the 2013 restructuring and termination charge above. Liabilities for unpaid termination benefits at the period end are included within business repositioning provisions (see note 18).

(c) The amount in 2013 includes the balance of bid defence costs associated with the takeover bid from the group's largest shareholder Ryanair Holdings plc which was prohibited by the European Commission on 27 February 2013, as well as costs related to the negotiation of pension issues and fees relating to the capital reduction exercise. Costs in 2012 were associated with the Ryanair takeover bid.

(d) During 2010 and 2011, the Group had a particular commercial exposure and assessed the probability of loss as more likely than not. An impairment provision of €4.8 million was therefore established for this exposure during 2010 and 2011. At 31 December 2012, as a result of a change in circumstances, the likelihood of loss was not considered to be probable and the impairment provision was no longer required. The credit was treated as an exceptional credit due to the size and unusual nature of the item.

(e) Other costs in 2012 related principally to professional fees incurred in relation to an ongoing review of the Group's pension schemes.

5 Finance Income and Expense

	2013	2012 as restated
	€'000	€'000
<i>Finance income</i>		
Interest on cash, cash equivalents and deposits	6,944	11,023
Interest income on loans and receivables	1,902	1,879
Amortisation of available-for-sale reserve	161	147
Unwinding of discounting on non-current prepayments	1,830	1,612
	10,837	14,661
<i>Finance expense</i>		
Interest expense on finance lease obligations	13,442	15,080
Unwind of discounting on provisions	473	511
Interest expense on net post employment benefit obligations	1,159	1,071
Miscellaneous	1	2
	15,075	16,664

6 Income tax

Income tax charge recognised in the income statement

	2013	2012
	€'000	€'000
Current taxation		
Withholding taxes deducted at source	18	18
Foreign taxes paid	19	19
	37	37
Deferred tax		
Origination and reversal of timing differences	5,433	6,506
Total income tax charge	5,470	6,543

7 Basic and diluted profit per share

Basic profit per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of shares in issue during the year, excluding treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2013, dilutive potential ordinary shares relate to share awards and options granted that have satisfied specific performance conditions as set out in the underlying award or option agreement. The weighted average number of dilutive potential ordinary shares in existence for purposes of 2013 diluted EPS was 4,596,978 (2012: 157,534).

	2013	2012 (as restated)
Profit attributable to owners of the parent (€'000s)	34,088	33,852
Weighted average number of ordinary shares in issue (000s)	531,822	530,093
Basic and diluted profit per share (cent per share)	6.4	6.4
	2013	2012
Weighted average number of ordinary shares in issue (000s)	531,822	530,093
Dilutive effect of options and long term incentive plan (000s)	4,597	158
Weighted average number of ordinary shares for dilutive earnings per share (000s)	536,419	530,251

8 Property, plant and equipment

	Flight equipment	Property	Ground equipment	Other equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
1 January 2012	1,185,485	30,874	48,502	24,819	1,289,680
Additions	28,313	5,992	3,222	2,484	40,011
Disposals	(32,627)	(492)	(748)	(907)	(34,774)
Reinstate asset ¹	23,035	-	-	-	23,035
31 December 2012	1,204,206	36,374	50,976	26,396	1,317,952
Accumulated depreciation					
1 January 2012	441,820	20,750	38,855	17,311	518,736
Depreciation charge for the period	68,693	2,498	3,330	2,113	76,634
Disposals	(32,680)	(492)	(748)	(44)	(33,964)
Reinstate asset ¹	15,459	-	-	-	15,459
31 December 2012	493,292	22,756	41,437	19,380	576,865
Cost					
1 January 2013	1,204,206	36,374	50,976	26,396	1,317,952
Additions	21,739	2,338	1,815	2,593	28,485
Disposals	(24,047)	(15)	(2,672)	(114)	(26,848)
31 December 2013	1,201,898	38,697	50,119	28,875	1,319,589
Accumulated depreciation					
1 January 2013	493,292	22,756	41,437	19,380	576,865
Depreciation charge for the period	69,382	3,703	2,914	3,432	79,431
Disposals	(23,692)	(15)	(2,333)	(114)	(26,154)
31 December 2013	538,982	26,444	42,018	22,698	630,142
Net book value					
31 December 2013	662,916	12,253	8,101	6,177	689,447
31 December 2012	710,914	13,618	9,539	7,016	741,087
Leased assets included above (net book value)					
31 December 2013	465,650	-	-	-	465,650
31 December 2012	502,170	-	-	-	502,170

¹ During 2012, an aircraft previously classified as held for sale was brought back into the operational fleet and reinstated into fixed assets at its original cost and at a net book value representing impairment of €2.2 million and depreciation to the point of reinstatement.

Finance lease obligations are secured on flight equipment with a net book value of €465.7 million (2012: €502.2 million). Depreciation of €47.7 million (2012: €47.8 million) was charged on these assets during the year.

The terms of the leases under which these aircraft are held include agreements which allow the Group the option to purchase the aircraft at pre agreed prices. In substance these agreements mean that the Group is likely to exercise these options and take ownership of these aircraft.

One of the Group's owned aircraft and one aircraft which the Group holds under a finance lease are subleased to third parties. The minimum duration of these subleases is to 28 March 2015. Minimum amounts receivable under the subleases are €16.7 million.

9 Intangible assets

	Computer Software	License ¹	Total
	€'000	€'000	€'000
Cost			
At 1 January 2012	58,688	3,000	61,688
Additions	4,400	-	4,400
Disposals	(1,777)	-	(1,777)
At 31 December 2012	61,311	3,000	64,311
Aggregate amortisation			
At 1 January 2012	49,045	-	49,045
Charge for the year	2,486	333	2,819
Impairments	1,777	-	1,777
Disposals	(1,777)	-	(1,777)
At 31 December 2012	51,531	333	51,864
Cost			
At 1 January 2013	61,311	3,000	64,311
Additions	5,493	-	5,493
Disposals	(604)	-	(604)
At 31 December 2013	66,200	3,000	69,200
Aggregate amortisation			
At 1 January 2013	51,531	333	51,864
Charge for the year	3,162	334	3,496
Disposals	(604)	-	(604)
At 31 December 2013	54,089	667	54,756
Net book value			
31 December 2013	12,111	2,333	14,444
31 December 2012	9,780	2,667	12,447

¹Licence to occupy certain DAA owned property

The amortisation expense in respect of computer software and licences is included in depreciation and amortisation in the income statement.

10 Investment in Joint Venture

	2013	2012
	€'000	€'000
At 1 January	10,764	-
Investment during year	3,644	10,954
Share of profit/(loss) after tax, being share of total comprehensive income/(loss)	6	(190)
Amounts charged to unrealised retranslation reserve	(481)	-
At 31 December	13,933	10,764

During 2012, the Group acquired a 33.33% equity interest in the share capital of Propius Holdings Limited (the "Joint Venture"), the parent company of an aircraft leasing group. The Joint Venture acquired six ATR 72-600 series aircraft over the course of 2013 for onward leasing to Aer Arann. It is due to acquire a further 2 similar aircraft in 2014, which will also be leased on to Aer Arann.

During the year, the Group paid up US\$9.3 million (€7.0 million) in respect of its share of the uncalled share capital. The Group has recognised a liability in respect of the uncalled share capital amounting to US \$1.8 million, which is due to be paid in 2014. This amount has been hedged for €1.4 million.

A further US\$4.8 million (€3.6 million) was also invested into the Joint Venture during 2013 as the Group's share of new share capital issued by the Joint Venture. This amount was used by the Joint Venture to fund the purchase of the entire share capital of Propius Leasing Limited (formerly Arann Aircraft Leasing Limited). Propius Leasing Limited subsequently acquired two ATR 72-500's from Comhfhorbairt (Gaillimh), a company in the Aer Arann Group, which were then leased back to Comhfhorbairt (Gaillimh).

Together, the cost of investment in respect of further amounts of share capital paid over to the Joint Venture in the year total €10.6 million. The amount shown in the cashflow statement in respect of investment in the Joint Venture during the year is €10.7 million. The difference of €0.1 million represents offsetting cashflows in respect of hedges taken out to cover the cost of the share capital payments. These are shown in the cashflow statement within the "Other gains and losses" line within cash generated from operations.

The Group's share of the results of its Joint Venture in the year was a profit (after tax) of €6,000 (2012: loss of €190,000). €61.9m of the liabilities of the Joint Venture are non current in nature. The Group's share of capital commitments of the Joint Venture at 31 December 2013 was €6.2 million (31 December 2012, €33.1 million). There are no contingent liabilities relating to the Group's interest in the Joint Venture.

Propius Holdings Limited is an entity incorporated within the Cayman Islands. The results for the 12 months ended 31 December and financial position of the entity at 31 December are summarised as follows:

Name	Country of incorporation	Assets	Liabilities	Revenue	Profit/(loss) after tax	% Interest held
€'000						
Propius Holdings Ltd	Cayman Islands					
31 December 2013		111,953	(70,156)	3,789	18	33.3
31 December 2012		32,445	(655)	-	(586)	33.3

11 Derivative financial instruments

Assets and liabilities relating to derivative financial instruments represent the fair value of open forward foreign exchange contracts and fuel price swaps to which the Group is a party at the reporting date. The fair value of these open positions is calculated by reference to the forward foreign exchange rates and forward fuel prices at the reporting date. During 2013 the fair value of fuel contract open positions has increased significantly due to the fact that fuel prices were circa US\$10 per metric tonne higher than at 31 December 2012, and the Group's hedge positions were at more attractive rates. However, during 2013 the value of the Group's foreign exchange hedges decreased significantly mainly due to a weakening of the US dollar against the euro.

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

The statement of comprehensive income shows fair value losses to 31 December 2013 (before the impact of deferred tax) of €8.4 million (2012: losses of €5.8 million). This represents both mark to market and deferred realised losses on the Group's portfolio of foreign exchange hedges, partially offset by the gain in the Group's portfolio of fuel hedges.

Fair value estimation

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

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

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

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

The following table presents the Group's net assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Assets				
Derivative financial instruments	-	5,546	-	5,546
Liabilities				
Derivative financial instruments	-	12,066	-	12,066

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

Specific valuation techniques used to value financial instruments include:

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

Foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2013 were €491.5 million (31 December 2012: €411.9 million).

Interest rate swaps

The notional principal amounts of the outstanding interest rates swaps at 31 December 2013 were €nil (31 December 2012 €36.4 million).

Aircraft fuel price contracts

The Group enters into derivative contracts to fix the price of a proportion of its forecast aircraft fuel purchases. The notional principal amounts of the outstanding contracts at 31 December 2013 were €233.4 million (31 December 2012: €216.1 million). The outstanding fuel price contracts at 31 December 2013 amounted to 355,025 metric tonnes of aircraft fuel (31 December 2012: 297,471 metric tonnes).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

A gain relating to ineffectiveness of fuel hedges of €0.74 million is reflected in the income statement in 2013 (2012: charge of €0.03 million).

Cash flows in respect of derivative financial instruments are expected to occur as they mature at various points over the next 18 months. The fair value of the instruments at the point of settlement will affect the income statement at the point of settlement.

12 Trade and other receivables

	2013	2012 (as restated ¹)
	€'000	€'000
Trade receivables	53,552	42,273
Other amounts receivable	28,124	27,689
Prepayments and accrued income	35,128	29,825
	116,804	99,787

Shown as:

Non-current assets	43,278	33,133
Current assets	73,526	66,654
	116,804	99,787

¹See Basis of Preparation note (v).

At 31 December 2012, amounts relating to accrued interest receivable were presented within other amounts receivable. At 31 December 2013, accrued interest receivable has been presented within prepayments and accrued income as the directors consider that this category best represents the nature of the asset. For consistency, the comparative amounts above have been restated to reflect a reclassification of €7,929,000 from other amounts receivable to prepayments and accrued income. This reclassification had no impact on the primary financial statements.

13 Gross cash, cash and cash equivalents

	2013	2012
	€'000	€'000
Non-current		
Loans and receivables	11,742	43,373
Deposits	101,752	119,716
	113,494	163,089
Current		
Loans and receivables	31,887	-
Deposits	563,229	432,504
Cash and cash equivalents	188,805	312,939
	783,921	745,443
Total gross cash and deposits	897,415	908,532

At 31 December 2013, the Group held deposits of €19.1 million (31 December 2012: €21.1 million), which were not available for immediate use by the Group.

14 Trade and other payables

	2013	2012 (as restated)
	€'000	€'000
Trade payables	63,313	53,716
Accruals and deferred income	55,832	52,031
Ticket sales in advance, excluding taxes and charges ¹	133,131	129,469
Employment related taxes	7,154	7,348
Other amounts payable	32,838	41,075
	292,268	283,639

¹ The total value of tickets sales in advance at year end was €158.5 million (2012: €163.3 million).

At 31 December 2012, amounts relating to accrued interest payable were presented within other payables. At 31 December 2013, accrued interest payable has been presented within accruals and deferred income as the Directors consider that this category best represents the nature of the liability. For consistency, the comparative amounts above have been restated to reflect a reclassification of €4,058,000 from other payables to accruals and deferred income. This reclassification had no impact on the primary financial statements.

15 Finance lease obligations

	2013	2012
	€'000	€'000
Current portion	114,321	41,979
Non-current portion	363,277	489,608
	477,598	531,587

16 Defined contribution pension schemes

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

	2013	2012
	€'000	€'000
The IASS	4,880	5,171
The Pilots' Scheme	10,819	10,079
Other defined contribution schemes	4,529	4,500
Total	20,228	19,750

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

The IASS is a multi-employer scheme with fixed contributions made by the employers and employees in accordance with the trust deed and rules. At 31 March 2013 (the most recent date for which IASS membership data is available and according to the annual report and financial statements of the scheme in respect of the year ended 31 March 2013) the IASS had 14,578 members, comprising 4,310 active members, 5,388 deferred members and 4,880 pensioners. Approximately 69% of members are current or former employees of Aer Lingus Limited. The statutory minimum funding standard (the "MFS") is an actuarial valuation of the funding status of the IASS if it were to be wound up under current legislation at a given date. As at 31 December 2013 (the most recent date in respect of which estimated MFS data has been provided by advisors to the IASS), the IASS was estimated to have an MFS deficit of approximately €715 million (the deficit at 31 December 2012 was €779 million). Approximately 65% of any deficit is attributable to employees or former employees of Aer Lingus Limited. Employees who have joined Aer Lingus Limited since late 2009 are no longer required to become members of the IASS.

Aer Lingus Limited and the other sponsoring employers have no obligation to contribute anything other than the fixed rate of contribution to the IASS and in the absence of the assumption of additional voluntary commitments, the IASS Trustee will be required to take measures to address the funding position of the IASS. If, as seems likely given the current funding position of the IASS, such measures result in a reduction in member benefits, it is likely that there will be an adverse effect on employee relations. There is therefore a risk that Aer Lingus Limited could become involved in industrial disputes with its employees, which would be significantly detrimental to the operations of the airline and its financial performance. It is also possible that Aer Lingus Limited's position, that it has no responsibility for the deficit in the IASS, could be subject to legal challenge from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that Aer Lingus Limited has received (that such a challenge is unlikely to succeed), a Court were to find against Aer Lingus Limited in any such litigation, significant or very significant loss could arise. No proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, of Aer Lingus Limited should such claims be made and succeed.

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

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

As at 27 March 2013 (the most recent date for which data has been provided by the Pilots' Scheme's advisors), the Pilots' Scheme was estimated to have an MFS deficit of approximately €172 million (the deficit at 31 December 2012 was €218 million). This represents coverage for active and deferred members of 47% (based on 100% pensioner coverage and market conditions as at 27 March 2013). Aer Lingus Limited's position that it has no responsibility for the deficit in this scheme could be subject to legal challenge on various grounds from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that Aer Lingus Limited has received (that such a challenge is unlikely to succeed), a Court were to find against Aer Lingus Limited in any such litigation, a significant loss could arise. No proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, to Aer Lingus Limited should such claims be made and succeed.

In the context of the IASS funding shortfall, Aer Lingus Limited has attempted to assist in the achievement of a fair outcome that improves the pension prospects of affected IASS members in a way that will balance the interests of all parties, including shareholders and employees. On this basis, Aer Lingus Limited has participated in a process of discussion under the auspices of the LRC which commenced in 2010 and which has also involved the Irish Business and Employers Confederation (“IBEC”), the Irish Congress of Trade Unions (“ICTU”) and the Labour Court.

In late 2012, Aer Lingus Limited engaged with parties involved in the IASS, alongside representatives of Dublin Airport Authority plc (“DAA”), IBEC, ICTU and the Labour Court with a view to resolving funding issues in the IASS.

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

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

The key elements of the IASS Proposal are:

- The IASS Proposal should attempt to achieve the target levels of benefit set out in the Interim Recommendation. These target benefits should be achieved through a combination of (i) IASS benefits (reduced by the imposition of coordination and any further benefit reductions which the IASS Trustee considers appropriate); (ii) investment proceeds from a proposed once-off Aer Lingus Limited contribution of €110 million (see next bullet point); (iii) employer and employee contributions into a new and separate defined contribution scheme for the benefit of Aer Lingus Limited’s current employees (see next bullet point) and (iv) the Irish State pension;
- Subject to certain agreements and required approvals being obtained, a once-off lump sum of €110 million should be contributed by Aer Lingus Limited to individual pension funds within a new and separate defined contribution scheme for the benefit of Aer Lingus Limited’s current employees who are members of the IASS. This contribution of €110 million was proposed by the Labour Court in the Final Recommendation for the benefit of current employees. Each employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them;
- The payment of the April 2013 annual salary increment should be delayed until September 2013. Following the payment of this increment, annual increments should be replaced by cost stabilisation payments outlined in the Final Recommendation over the period to 2017 providing cost predictability and certainty over this period. Aer Lingus Limited has paid the April 2013 increment with effect from September 2013; and
- Subject to certain agreements and required approvals being obtained, a once-off contribution by Aer Lingus Limited of €30 million would be made available in respect of former employees of Aer Lingus Limited who are deferred members of the IASS. Each former employee will be expected to confirm their acceptance of the arrangements before any payment can be made in respect of them.

Notwithstanding the Interim Recommendation and Final Recommendation and Aer Lingus Limited’s involvement in discussions to resolve funding issues in the IASS, it remains Aer Lingus Limited’s position with respect to the IASS, and which is supported by firm legal advice, that it has no legal or constructive obligation other than to continue to pay the fixed rate contributions as set out in the trust deed and rules of the IASS. However, the deficit in the IASS is such that current and deferred members face the loss of a very large part of their expected pension benefits if this scheme is wound up under current legislation. In this context, Aer Lingus Limited believes that the IASS Proposal is in the interests of all parties, including shareholders, employees and customers.

Specifically, it is expected that the IASS Proposal would:

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

Any implementation of the IASS Proposal is dependent on a series of further complex steps. These steps include (but are not limited to) the following agreements being reached and approvals being achieved:

- Agreement with the trade unions;
- Agreement by the IASS Trustee with the sponsoring employers;
- Aer Lingus Group plc shareholder approval to make the proposed once-off contributions totaling €140 million;
- Trade union member ballot approvals;
- The successful conclusion of a range of implementation steps by the IASS Trustee amongst others; and
- Approval by the Irish Pensions Regulator (the “Pensions Board”) of a funding proposal to implement the benefit reductions proposed by the IASS Trustee

Assuming the above agreements with the IASS Trustee and the trade unions can be concluded, the directors of Aer Lingus Group plc plan to issue a circular to all shareholders and convene an extraordinary general meeting (“EGM”) to seek approval from shareholders to make the proposed once-off contributions totaling €140 million. It is important to note that the proposed payments totaling €140 million remain subject to this shareholder approval and will not be made in the absence of such approval. While Aer Lingus Limited is committed to seeking a solution that can be implemented in the best interests of all parties, including shareholders and employees, the process is complex and there is no certainty that agreement can be reached between the various parties. If the required agreements and approvals are achieved, Aer Lingus Limited would then implement the IASS Proposal.

Recent developments

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

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

The IASS Trustee's draft funding proposal comprises the following elements:

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

Aer Lingus Limited's assessment, based on careful consideration of the IASS Trustee's draft formal funding proposal and advice received, is that Aer Lingus Limited's proposed once-off funding of €110 million to a new defined contribution scheme for current employees remains adequate to support the achievement of the targets recommended by the Labour Court.

Subject to the required agreements and approvals outlined above, Aer Lingus reaffirms its commitment to the proposed contributions totaling €140 million in order to significantly improve the current and future pension prospects of Aer Lingus Limited's current and former employees who are members of the IASS. Aer Lingus Limited also remains committed to the required implementation of the cost stabilisation elements outlined in the Final Recommendation in order to provide Aer Lingus Limited with cost predictability and certainty over the coming years. Aer Lingus Limited notes the Trustee's planned implementation date of 31 December 2014, but would encourage all parties to engage constructively to accelerate the proposed implementation.

The draft funding proposal received from the IASS Trustee has not yet been submitted to the Pensions Board and it remains the responsibility of the IASS Trustee to make the submission. Aer Lingus Limited therefore expects the IASS Trustee to move forward with the submission of this draft funding proposal as soon as is practicable on the basis that it represents a viable solution which would result in a better outcome for the affected parties than the forced winding up of the IASS. IASS Trustee engagement with the Pension Board is a crucial preliminary step that must be completed before the other key steps (outlined above) can be taken.

Aer Lingus Limited notes that members of the SIPTU trade union have voted in favour of industrial action related to pension matters. Aer Lingus Limited also notes recent media reports that other unions representing employees of Aer Lingus Limited, DAA and SAA are to consult with their members with regard to coordination of industrial action on pension matters. Despite the renewed prospect of industrial action, Aer Lingus Limited will continue to work hard to achieve a balanced and fair outcome and encourages all parties seeking to resolve the funding issues of the IASS to engage constructively.

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

The Interim Recommendation and Final Recommendation do not relate to the Pilots' Scheme. Aer Lingus Limited is separately engaged in a process of discussion with parties affected by the funding position in the Pilots' Scheme. These discussions have been complicated by changes to the taxation of pensions in Ireland in late 2013 which may have potential implications for members of the Pilots' Scheme. These pension discussions continue in parallel with the pilot pay tribunal which is yet to conclude.

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

17 Post employment benefit obligations/(assets)

	2013	2012
	€'000	€'000
North American Pension (a)	2,037	4,309
North American Post Employment Medical Benefit (b)	1,999	2,284
Post Employment Income Streaming (c)	24,580	27,922
Other	(362)	343
	28,254	34,858

- (a) The Group operates a funded defined benefit scheme for qualifying employees and former employees of its operation in North America. Under the scheme, employees are entitled to retirement benefits comprising a lump sum on retirement representing 50% of final average compensation, plus a pension calculated as 1% of final average compensation for each year of membership, on reaching retirement age of 65. Retirement benefits are reduced for service of less than 20 years. The scheme has 114 members (2012: 119). Both participation in this plan and accrual of benefits are now frozen.
- (b) The Group operates an unfunded post employment medical benefit scheme for certain former employees of the operation in North America. The scheme has 67 members (2012: 72). Both participation in the plan and accrual of benefits are frozen.
- (c) The Group operates an unfunded income streaming arrangement 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

	Business repositioning¹	Aircraft maintenance²	Other³	Total
	€'000	€'000	€'000	€'000
At 1 January 2012	29,903	37,991	13,610	81,504
Provided during the year	15,106	14,024	977	30,107
Written back during the year	(75)	(1,705)	-	(1,780)
Utilised during the year	(12,513)	(12,676)	228	(24,961)
At 31 December 2012	32,421	37,634	14,815	84,870
At 1 January 2013	32,421	37,634	14,815	84,870
Provided during the year	12,984	20,234	261	33,479
Written back during the year	-	(1,255)	(311)	(1,566)
Utilised during the year	(26,181)	(13,426)	(210)	(39,817)
Unwind of discounting	213	133	127	473
Retranslation	8	(715)	-	(707)
At 31 December 2013	19,445	42,605	14,682	76,732

Analysed as current liabilities

31 December 2013	12,493	3,270	3,342	19,105
31 December 2012	16,171	9,804	3,757	29,732

Analysed as non-current liabilities

31 December 2013	6,952	39,335	11,340	57,627
31 December 2012	16,250	27,830	11,058	55,138

Total provision

31 December 2013	19,445	42,605	14,682	76,732
31 December 2012	32,421	37,634	14,815	84,870

¹ **Business repositioning**

Business repositioning costs include provisions for restructuring costs recognised in accordance with IAS 37 when a constructive obligation exists and a provision for termination benefits that are not part of a restructuring plan, and are therefore recognised in accordance with IAS 19R when the entity can no longer withdraw the offer of benefits.

The amount of the restructuring provision is based on the terms of the restructuring measures, including employee severance, which have been communicated to employees. It represents the directors' best estimate of the cost of these measures, having regard to the current status of negotiations.

The provision relating to the FY13 Voluntary Severance Programme has been recorded in respect of individuals who at the reporting date had accepted the offer of voluntary severance.

At 31 December 2013, the majority of the business repositioning provision relates to the Greenfield cost reduction programme, the closure of the Shannon hangar maintenance operation and the termination costs in respect of the Voluntary Severance Programme. Measurement uncertainty associated with restructuring provisions arise from the achievement of certain operating and financial targets and changes in human resources requirements. Uncertainty associated with the provision in respect of the Voluntary Severance Programme relates to the timing of employee exit dates. Greenfield, Shannon and Voluntary Severance provisions are expected to be materially utilised in the next financial year, with the remaining provision balance expected to be largely utilised in the next 8 years.

² **Aircraft maintenance**

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. Measurement uncertainty associated with maintenance provisions arise from the timing and nature of overhaul activity required and sensitivity in projected flight hours. The provision is expected to be materially utilised over the next six financial years.

³ **Other**

Other provisions relate mainly to the frequent flyer programme and free flight entitlements 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. Measurement uncertainty associated with the frequent flyer and free flight programmes typically arise from variances in estimates of flight utilisation and length of sectors flown by programme members.

19 Contingent liabilities and assets

Sublease of hangar facility at Shannon

In December 2012, the Group entered into an agreement for the assignment of its interest in the lease of a hangar facility at Shannon Airport. Under the terms of this arrangement, Aer Lingus has provided a guarantee to the Dublin Airport Authority ("DAA") in respect of rents that would otherwise have been payable by the Group under the lease up to 31 July 2021. The Group estimates the maximum amount payable would be approximately €2.8 million in the event that the guarantee was called.

Air travel tax

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

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

Arrangement relating to Aer Arann

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

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

The directors consider that it is not probable that any of the items listed above will give rise to a loss.

Litigation and claims

The Group is party to various uninsured legal proceedings. The Group makes provision for any amounts for which it expects to become liable. At 31 December 2013, these provisions were less than the total amounts claimed by plaintiffs because the Group does not believe that it has any liability for the balance and the proceedings are being defended. Further disclosure required by IAS 37 is not made as the directors believe that to do so could seriously prejudice the conduct and outcome of these proceedings.

20 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:

	2013	2012
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	54,135	57,134
Deferred tax liability to be recovered after more than 12 months	(57,999)	(55,804)
Deferred tax (liability)/asset	(3,864)	1,330

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

	2013	2012
	€'000	€'000
Deferred tax asset at 1 January	1,330	4,929
Income statement expense	(5,433)	(6,506)
Tax credited directly to equity	239	2,907
Deferred tax (liability)/asset at 31 December	(3,864)	1,330

21 Called-up share capital

	2013	2012
	€'000	€'000
Authorised		
900,000,000 ordinary shares of €0.05 each	45,000	45,000
Issued and fully paid		
At 1 January and 31 December	26,702	26,702

The total number of ordinary shares of €0.05 each in issue at 31 December 2013 was 534,040,090 (31 December 2012: 534,040,090) of which 2,029,606 (31 December 2012: 3,946,658) were treasury shares.

In March 2013, following the vesting of awards granted under the 2010 cycle of the Group's Long Term Incentive Plan ("LTIP") scheme the vested awards of participants were settled, resulting in 1,917,052 treasury shares being issued by the Group to LTIP participants.

22 Share Premium

	2013	2012
	€'000	€'000
At 1 January and 31 December	359,449	510,605

In 2011, Aer Lingus commenced a process to create additional distributable reserves in Aer Lingus Group plc with a view to improving flexibility for the future. At the time, Aer Lingus Group plc could not make a distribution to shareholders in excess of €57.4m, which was the total amount of that company's retained earnings at that time.

As Aer Lingus Group plc is a holding company and does not trade in its own right, it can normally only add to or replenish retained earnings by means of dividends paid to it from its subsidiary companies. However, Aer Lingus Limited, which is the main operating subsidiary in the Group, is itself unable to pay dividends due to the level of its accumulated realised losses. This means that Aer Lingus Limited would be unable to pay dividends to its parent, Aer Lingus Group plc, until it earns sufficient profits to eliminate the deficit on its retained earnings account, and has accumulated sufficient distributable reserves to finance the payment of dividends.

However, Section 72 of the Companies Act 1963 enables a company, subject to shareholder approval and the approval of the High Court (the "Court"), to create distributable reserves through the cancellation of amounts currently shown as non-distributable reserves in that company's balance sheet. On this basis, the directors of Aer Lingus Group commenced a process in 2011 to create additional distributable reserves in Aer Lingus Group plc's balance sheet through a capital reduction.

On 4 November 2011, Aer Lingus shareholders approved a special resolution at an Extraordinary General Meeting ("EGM") to take the necessary steps to seek the approval of the High Court ("the Court") to create up to €500 million of distributable reserves on the balance sheet.

The matter was heard by the Court in July 2012. Objections were made by trustees of both the Irish Airlines (General Employees) Superannuation Scheme ("the IASS") and the Irish Airlines (Pilots) Superannuation Scheme ("the IA(P)SS"). Following review of submissions from all parties, on 15 March 2013, the Court approved the creation of distributable reserves as requested.

The effect of the creation of €500 million of distributable reserves has been the corresponding reduction in the capital conversion reserve fund and the capital redemption reserve fund (in each case reduced to nil), along with a further balancing reduction to the share premium account of €151m. The Court made a condition that no distribution should be made which would leave the remaining aggregated distributable and non-distributable reserves of Aer Lingus at an amount less than the aggregate of the deficits in the IASS and the IA(P)SS, as relating to current and former Aer Lingus employees, without 28 days prior notice being given by Aer Lingus to the corporate trustees of each of the IASS and IA(P)SS. The requirement to give notice of distribution does not preclude Aer Lingus from making a distribution.

23 Cash generated in operations

	2013	2012 as restated
	€'000	€'000
Profit before tax	39,558	40,395
<i>Adjustments for:</i>		
- Depreciation and amortisation	82,927	79,453
- Net movements in provisions for liabilities and charges	(7,393)	3,147
- Net fair value losses on derivative financial instruments	(738)	28
- Share options and awards expense	(696)	3,389
- Finance income	(10,837)	(15,303)
- Finance expense	15,075	17,131
- Net exceptional items	(1,943)	(877)
- Share of (gains)/losses of joint venture	(6)	190
- Other losses/(gains) – net	(14,483)	12,473
- Post employment benefit obligations	757	460
<i>Changes in working capital</i>		
- Inventories	(304)	(742)
- Trade and other receivables	(16,761)	1,708
- Trade and other payables	15,932	(22,944)
Cash generated in operations	101,088	118,508

24 Financial commitments

(a) Capital commitments

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

	2013	2012
	€'000	€'000
Contracted for but not provided		
- Aircraft and equipment	794,625	937,121
- Other	3,066	2,664
	797,691	939,785

(b) Lease commitments

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

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

Three of the aircraft which the Group holds under operating leases are subleased to third parties. The minimum duration of these subleases is to 28 March 2015. Minimum amounts receivable under the subleases are €25.4 million.

At 31 December 2012 the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property	Aircraft	Plant and machinery
	€'000	€'000	€'000
No later than one year	7,486	44,498	2
Later than one year but no later than five years	28,260	115,860	-
Later than five years	40,338	-	-
	76,084	160,358	2

25 Events after the reporting period

The board resolved to recommend a final dividend payment of four cent per share in respect of the year ended 31 December 2013, subject to shareholder approval at the Annual General Meeting.

Mr. John Hartnett, Mr. Nigel Northridge and Mr. Nicolas Villen were appointed to the Board as independent, non-executive directors with effect from 1 January 2014. Dr Colin Hunt and Mr Francis Hackett retired as directors with effect from 29 January 2014 and 7 February 2014, respectively.

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