Aer Lingus Group plc

ISE: EIL1 LSE: AERL

PRELIMINARY ANOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Dublin, London, 13 March 2007: Aer Lingus Group plc ("Aer Lingus"), an Irish low-cost, low-fares airline, providing both short and long haul passenger and cargo transportation services, today announced its results for the year ended 31 December 2006.

€ million	**2006**	**2005**	**% change**
Revenue			
- passenger	997.9	909.5	9.7
- ancillary	63.4	47.3	34.0
- cargo	49.5	41.6	19.0
- other	5.0	4.3	16.3
- total	**1,115.8**	**1,002.7**	**11.3**
Operating costs	(1,039.8)	(921.3)	12.9
Operating profit before employee profit share	**76.0**	**81.4**	**(6.6)**
Employee profit share	(7.3)	-	-
Net finance income	21.7	10.2	112.7
Profit before tax	**90.4**	**91.6**	**(1.3)**
Tax	(13.0)	(10.1)	28.7
Profit after tax - underlying	**77.4**	**81.5**	**(5.0)**
Amounts excluded from underlying	(147.3)	7.4	-
(Loss)/profit after tax	(69.9)	88.9	-
Earnings per share (cent) - underlying	22.2c	28.5c	(22.1)
EBITDAR*	**183.8**	**187.1**	**(1.8)**

	2006	**2005**	**% change**
Passengers carried ('000)	8,631	8,044	7.3
Average short haul fare (€)	90.99	87.55	3.9
Average long haul fare (€)	280.90	262.89	6.9
Short haul utilisation (block hours per day)	9.9	9.4	5.3
Long haul utilisation (block hours per day)	13.6	13.3	2.3
Unit cost (excl fuel) (cent) **	4.24c	4.38c	(3.2)

The financial amounts are the underlying numbers and exclude exceptional items of €133 million – see Appendix 1 for explanation and for a reconciliation of the amounts to be included in the statutory financial statements under IFRS.

** Earnings before interest, tax, depreciation, amortisation and aircraft rentals – underlying.*

*** Unit cost is based on total operating costs, excluding depreciation, aircraft lease costs and fuel, divided by available seat kilometres.*

2006 Highlights

- Initial Public Offering (IPO) successfully completed, raising net cash of €400 million to fund growth plans.
- Strong performance in EBITDAR despite increasing fuel costs and the impact of the UK terrorism alert. Achieved a return on capital, as measured by EBITDAR/Replacement Value, of 17.2% up from 16.1% in 2005 and 2.2% in excess of our investment target.
- Total short haul passengers carried up by 638,000 (9.3%) to 7,513,000, including 4,337,000 on Ireland/Continental Europe (up 19.7%).
- Continued expansion of the route network, with 75 short haul routes flown (up from 64 in 2005), and the launch of a long haul service to Dubai.

- Ancillary revenue up by 34.0% to €63.4m, and up 25.0% per passenger to €7.35. The introduction of a hold baggage charge came into effect in January 2007 and will lead to further ancillary revenue growth in 2007.

- Costs remain a key area of focus, with a further reduction of 3.2% in cash operating unit cost excluding fuel recorded in 2006. The Programme for Continuous Improvement was launched in December 2006, aimed at further reducing costs in an increasingly competitive environment.

- Continued improvement in utilisation of aircraft – short haul fleet up from 9.4 block hours per day in 2005 to 9.9 in 2006; long haul fleet up from 13.3 in 2005 to 13.6 in 2006.

- Further growth in 2007, with six aircraft being added to the fleet and a long haul order to be placed shortly.

Commenting, Dermot Mannion, Chief Executive, said:

"2006 has been a year of fundamental change for Aer Lingus. The announcement of our first set of results, as a publicly listed company, represents another significant milestone in our history. The ownership structure changed substantially through the IPO and enabled us to raise the equity required to advance our growth objectives and to resolve a long standing pension funding issue.

Throughout the IPO process and the subsequent unsolicited takeover bid by Ryanair Holdings plc, we maintained our focus on delivering an enhanced offering for customers and value for our shareholders. We are continuing to expand our short haul network, grow ancillary revenues and reduce unit costs in an increasingly competitive operating environment. Despite the UK terrorism incident last summer and the substantial increase in the price of oil, our underlying operating profits remained strong in 2006 and were better than expectations at the time of the IPO.

We also launched our Programme for Continuous Improvement in December 2006 with the aim of continuing to reduce our operating costs. The success of this Programme is critical in maintaining our competitiveness in the marketplace. In addition to our continuing focus on cost reduction in 2007, following a period of static capacity, we are investing in our long haul fleet, enabling us to expand our transatlantic services. In this regard, we welcome the recent EU announcement that a draft open skies agreement has been reached with the US.

We have an experienced, proven management team and a strong balance sheet to support our growth objectives in 2007 and beyond."

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2006 Financial Overview

We achieved another strong financial performance during 2006 with an underlying operating profit of €76.0 million (2005: €81.4 million) despite the negative effects of the UK terrorism alert in the peak summer period and the substantial increase in oil prices during the year.

Revenue

Total revenue rose by 11.3% to €1,115.8m. Passenger revenue grew by 9.7% to €997.9m, with a total of 8,631,000 passengers carried in 2006, up by 587,000 (7.3%) on 2005. The total passenger load factor was 77.6%, down from 81.4% in 2005.

Short haul

Expansion of the short haul network continued in 2006, with 75 routes flown compared with 64 in 2005. Short haul capacity, measured by available seat kilometres (ASKs), grew by 20.6% while utilisation, measured by revenue passenger kilometres (RPKs), rose by 18.2%. We completed the transition of the short haul fleet to all Airbus A320/321 aircraft in 2006. An additional A320 aircraft was added to the fleet in mid 2006 and, at 31 December 2006, we operated a short haul fleet of 22 A320 and 6 A321 aircraft. A further 4 A320 aircraft will be added to the fleet in 2007. Increased utilisation of aircraft remained an element of key focus, with the average daily block hour utilisation growing by 5.3%, from 9.4 hours in 2005 to 9.9 in 2006.

Total short haul passengers carried increased by 9.3% to 7,513,000 while the average short haul fare increased by 3.9% to €90.99. The main focus of short haul expansion was on the Ireland/Continental European routes, where passengers carried grew by 19.7% to 4,337,000.

Long haul

Long haul capacity, measured in ASKs, grew by 2% while utilisation, measured by RPKs, decreased by 4.9%. Increased utilisation of long haul aircraft was also a focus for 2006, with the average daily block hour utilisation growing by 2.3%, from 13.3 hours in 2005 to 13.6 in 2006. Total long haul passengers carried fell by 4.4% to 1,118,000 while the average long haul fare increased by 6.9% to €280.90.

Two additional A330 aircraft were ordered in 2006 to expand the long haul fleet, after a number of years operating a static fleet. On delivery of these aircraft in mid 2007, we will operate a long haul fleet of 9 A330 aircraft.

In March 2006, we launched our first non-transatlantic long haul service to Dubai.

Ancillary revenue

Ancillary revenue mainly comprises sales on board, booking fees, excess baggage charges and car hire, hotel and insurance commissions. We achieved significant growth in ancillary revenues, increasing by €16.1m (34.0%) to €63.4m. The ratio of ancillary revenues per passenger carried also grew significantly in 2006 – by 25.0% to €7.35 in 2006. Continuing to grow high margin ancillary revenues is a key focus area, with baggage charges implemented on the short haul in January 2007 and further initiatives planned for 2007.

Cargo

Aer Lingus carries cargo on long haul routes, and on a small number of short haul routes where the aircraft turnaround times permit. Total cargo revenue increased by 19% to €49.5m.

Long haul tonnage increased by 22.0% to 23,100 tonnes, while short haul tonnage grew by 17.5% to 2,600 tonnes.

Operating costs

Management continues to focus strongly on controlling cash operating unit cost excluding fuel, which recorded a further reduction of 3.2% in 2006 from 4.38c to 4.24c per available seat kilometre. Total underlying operating costs (before the employee profit share) increased by 12.9% to €1,039.8m, primarily as a result of increased volumes and higher oil prices.

The largest increase was in fuel costs, rising by €61.7m (44.4%) to €200.6m notwithstanding the benefits of our fuel hedging programme. Fuel represented 19.3% of underlying operating costs in 2006, up from 15.1% in 2005.

Staff costs, which represent 26.0% of underlying operating costs (2005: 27.1%), rose by 8.3% to €270.1m, while the average numbers employed increased from 3,475 in 2005 to 3,617 in 2006.

Airport charges represent 19.3% of underlying operating costs (2005: 19.4%) and increased by 12.3% through a combination of higher passenger volumes and increased charges by the airports served.

Maintenance costs fell from €75.3m in 2005 to €72.6m in 2006, largely due to our success in renegotiating disputed charges which achieved savings of almost €4m.

Employee profit share

As part of the IPO arrangements, it was agreed that a new, target based, employee profit sharing scheme would be established with effect from 1 January 2006. The amount earned under the scheme is payable to the ESOT which will utilise these funds to repay borrowings raised to finance the exercise of an option over Aer Lingus' shares granted at the time of the IPO. The profit sharing scheme expires when the borrowings have been repaid. A provision of €7.3m has been made in respect of the 2006 profit share.

Financing income and costs

Finance income increased by 32% to €48.6m through higher cash balances and increasing interest rates, while interest payable remained fairly static at €26.9m.

Exceptional items

Total exceptional costs of €133.0m were incurred in 2006, the majority relating to agreements reached in the context of the IPO. It was agreed that an additional amount of €104m, which is over and above that required to create the balance sheet strength necessary to finance our fleet expansion programme, would be raised and placed in a supplementary fund to be used, based on actuarial advice, to pay inflationary increases in pensions to general staff in the event that the main pension fund was unable to pay such increases. The inflow of these funds is included in the balance sheet in share capital/share premium, while the offsetting outflow is shown as an exceptional item.

As part of the IPO arrangements, a payment of €17m arising from an old profit sharing scheme and from employees foregoing a pay increase of 0.5% was made to the Employee Share Ownership Trust (ESOT) which utilised these funds to subscribe for shares in the IPO.

In October 2006, Aer Lingus received an unsolicited takeover bid from Ryanair Holdings plc. The Board rejected the bid, which is now subject to a Phase 2 investigation by the EU

Competition Commission. Costs incurred in 2006 in relation to the bid of €16.2m are included as an exceptional item.

Partially offsetting exceptional costs is an exceptional gain on the sale of aircraft engines of €4.2m.

Balance sheet

The balance sheet position has been transformed as a result of the IPO in September 2006, with net funds of €400m raised to provide the balance sheet strength necessary to finance Aer Lingus' fleet expansion plans.

Capital expenditure during the year was €74.6m, of which €62.6m related to flight equipment. The majority of this represents deposits paid on two A330 and two A320 aircraft ordered during 2006 for delivery in 2007.

Fuel and currency hedging

To achieve greater certainty on costs, we manage our exposure to fluctuations in the price of fuel and foreign currency through hedging. At 31 December 2006, our estimated fuel requirements for 2007 were hedged as follows:

	Full year 2007	6 months to 30 June 2007	6 months to 31 December 2007
% hedged	45%	81%	15%
Average price per barrel	$66	$67	$62

Since 31 December 2006, we have availed of weaknesses in the price of oil to increase our fuel hedging for 2007. At 28 February 2007, our estimated fuel requirements for the remainder of 2007 were hedged as follows:

	10 months to 31 December 2007	4 months to 30 June 2007	6 months to 31 December 2007
% hedged	55%	92%	31%
Average price per barrel	$63	$64	$60

Our major foreign currency exposure is to the US dollar. At 31 December 2006, we had purchased 55% of our estimated US dollar trading requirements for 2007 at an average rate of €1=$1.28. In addition, we had purchased 25% of our estimated US dollar trading requirements for 2008 at €1=$1.34. At 28 February 2007, our forward purchases of US dollars comprised 72% of the estimated trading requirements for the ten months to 31 December 2007 at €1=$1.28 and 28% of the estimated trading requirements for 2008 at a rate of €1=$1.34.

Future developments

Programme for Continuous Improvement

To compete in a demanding marketplace, we have significantly reduced our unit costs since 2001 and this continued into 2006. In December 2006, we announced our Programme for Continuous Improvement 2007 (PCI-07). PCI-07 is part of an ongoing process aimed at securing efficiencies and minimising unit costs. PCI-07 focuses on further significant unit cost reductions across a range of areas, including fuel consumption, airport handling costs, third party maintenance agreements, sales, marketing and distribution costs, further increases in aircraft utilisation, the achievement of efficiencies and common pricing at Dublin Airport, and staff costs. On the non-staff cost reduction initiatives, we have secured savings in airport handling costs, fuel usage, maintenance and telecommunications costs, we are currently in negotiations with our main third party maintenance provider in the context of the expiry of the existing contract in late 2008, and we have obtained third party contributions to our marketing costs. On staff costs, the Labour Court has issued a recommendation which recognises the need for cost savings and efficiencies and proposes a short period of negotiations on the detail of some of our cost saving initiatives and endorses others. Importantly, it also provides a platform for profitable growth by recommending that the pay, terms and conditions of employment and work practices at any overseas bases should be solely by reference to local market conditions. There is now considerable momentum behind the process which we estimate will deliver potential cost savings of €20 million in staff costs in the first full year (2008).

Fleet

Orders were placed for two A330 and four A320 aircraft (two on operating lease and two owned) during 2006 for delivery in 2007. This will bring the long haul fleet to nine A330s and the short haul to twenty-six A320s and six A321s. At the time of the IPO, we outlined an objective to double our long haul fleet and increase the short haul fleet by approximately 50%, as well as replace some of the existing aircraft. We have since issued a request for proposals to both Airbus and Boeing in respect of our long haul fleet requirements and are currently evaluating the responses with a view to placing an order shortly.

Transatlantic developments

A key focus for us is expansion of long haul services, primarily on the transatlantic. We welcome the announcement by the EU on 2 March 2007 that a draft open skies agreement has been reached with the United States and note the intention that this draft agreement is to be submitted to the EU Transport Council for approval on 22 March 2007. We also note the confirmation given by the Minister of Transport at the time of the IPO that he intended to seek to implement, by way of an amendment to the Ireland/US bilateral agreement, the essential elements of the transitional agreement previously reached with the US in the event that an open skies agreement is not reached within a reasonable timeframe. This transitional agreement covers a reduction in the Shannon stopover requirement and the opening of three more US gateways and we are liaising with the Department of Transport on this fallback position. The ability to provide customers with the opportunity to fly direct to additional destinations in the US and to have a more cost effective and attractive long haul schedule are important elements of our growth strategy.

Current Trading and Outlook

Aer Lingus aims to continue to focus on the delivery of profitable network development, leading to an estimated ASK growth of 14.6% in 2007. We are currently performing well, in line with our expectations. The first quarter for 2007 is seeing solid traffic flows, albeit with some pressure on yields.

Our outlook for the full year 2007 in Operating Profit terms is in line with market expectations at the time of the IPO, as Aer Lingus continues to benefit from its profitable growth strategy as well as continued strong performance in the sale of ancillary products.

Note on forward looking information

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

Note on unaudited operating and financial information

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

Appendix 1

Summary results

	2006	2006	2006	2005	2005	2005
	Underlying	Excluded from underlying	Total IFRS	**Underlying**	Excluded from underlying	Total IFRS
Revenue	**1,115.8**	-	1,115.8	**1,002.7**	-	1,002.7
Operating costs	**(1,039.8)**	(36.8)	(1,076.6)	**(921.3)**	8.4	(912.9)
Operating profit – before employee profit share	**76.0**	(36.8)	39.2	**81.4**	8.4	89.8
Employee profit share	**(7.3)**	-	(7.3)	**-**	-	-
Exceptional items	**-**	(133.0)	(133.0)	**-**	-	-
Finance income	**48.6**	-	48.6	**36.7**	-	36.7
Finance expenses	**(26.9)**	-	(26.9)	**(26.5)**	-	(26.5)
Profit before tax	**90.4**	(169.8)	(79.4)	**91.6**	8.4	100.0
Tax	**(13.0)**	22.5	9.5	**(10.1)**	(1.0)	(11.1)
Profit after tax	**77.4**	(147.3)	(69.9)	**81.5**	7.4	88.9

Prior to the IPO, Aer Lingus reported in accordance with Irish Generally Accepted Accounting Principles (Irish GAAP). As part of the preparation for the IPO financial reporting transitioned to International Financial Reporting Standards (IFRS). IFRS has specific documentation and testing requirements, that are not required under Irish GAAP, which must be adhered to at the time a hedging transaction is entered into if such transaction is to be accounted for using hedge accounting. Although effective commercial hedges, fuel and currency hedging arrangements entered into prior to 2006, when Aer Lingus was reporting under Irish GAAP, did not meet the requirements for hedge accounting on transition to IFRS. As a result, gains and losses in the market value of these hedges were reflected in the IFRS profit and loss account in 2005 and prior years rather than in the period when the hedges matured. The underlying results reflect the performance had hedge accounting been applied to these hedges in each of 2006 and 2005. The underlying operating profit before employee profit share for 2006 of €76.0 million is €36.8 million higher than the equivalent IFRS amount, with the difference representing net gains recorded in prior years on hedges maturing in 2006. Exceptional costs of €133.0 million are also excluded from underlying results. This treatment was also applied in the prospectus published in advance of the IPO.

Appendix 2

Passenger statistics

	2006	2005	% change
Passengers carried ('000)			
Short haul	7,513	6,875	9.3
Long haul	1,118	1,169	(4.4)
Total	8,631	8,044	7.3
Revenue passenger kilometres (RPKs) (million)			
Short haul	7,251	6,135	18.2
Long haul	6,112	6,426	(4.9)
Total	13,363	12,561	6.4
Available seat kilometres (ASKs) (million)			
Short haul	9,613	7,973	20.6
Long haul	7,613	7,467	2.0
Total	17,226	15,440	11.6
Passenger load factor (%)			
Short haul	75.4	76.9	(1.5)
Long haul	80.3	86.1	(5.8)
Total	77.6	81.4	(3.8)
Average fare (€)			
Short haul	90.99	87.55	3.9
Long haul	280.90	262.89	6.9
Average number of seat equivalents*			
Short haul	5,192	4,792	8.3
Long haul	2,625	2,625	-
Total	7,817	7,417	5.4

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

Group Income Statement

	Note	Year ended 31 December 2006 €'000	2005 €'000
Revenue	1	**1,115,812**	1,002,658
Operating Expenses			
Staff costs		**270,093**	249,377
Depreciation, amortisation and impairment		**58,183**	60,803
Aircraft operating lease costs		**49,647**	44,902
Fuel and oil costs	2	**234,127**	134,142
Maintenance expenses		**72,594**	75,276
Airport charges		**200,720**	178,715
En-route charges		**49,470**	43,477
Distribution costs		**43,274**	42,356
Ground operations, catering and other operating costs		**90,746**	89,940
Other losses/(gains) - net	2	**7,720**	(6,190)
Employee profit share	10	**7,327**	-
		1,083,901	912,798
Operating profit before exceptional items		**31,911**	89,860
Exceptional Items	3	**(132,961)**	-
Operating (loss)/profit after exceptional items		**(101,050)**	89,860
Finance Income	4	**48,552**	36,667
Finance Expense	4	**(26,870)**	(26,480)
(Loss)/profit before taxation		**(79,368)**	100,047
Taxation credit/ (charge)		**9,442**	(11,140)
(Loss)/profit for the year		**(69,926)**	88,907
Attributable to:			
Equity holders of the Company		**(69,926)**	88,907
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in € per share)			
– basic	5	(20,0)c	31.1c
– diluted	5	(20.0)c	31.0c

Group Balance Sheet

	Note	As at 31 December 2006 €'000	2005 €'000
ASSETS			
Non-current assets			
Property, plant and equipment		**526,160**	508,006
Intangible assets		**5,138**	5,707
Available for sale financial assets		**118,903**	159,998
Derivative financial instruments		**-**	434
Deferred tax assets		**3,338**	-
Trade and other receivables		**-**	100
Other deposits	6	**136,198**	191,921
		789,737	866,166
Current assets			
Inventories		**734**	1,053
Derivative financial instruments		**-**	37,548
Trade and other receivables		**64,610**	60,173
Current income tax receivables		**1,026**	-
Cash and cash equivalents and other deposits	6	**1,068,599**	529,027
		1,134,969	627,801
Total assets		**1,924,706**	1,493,967
EQUITY			
Share capital	7	**26,450**	357,829
Share premium	8	**497,958**	6,095
Capital conversion reserve fund		**5,048**	5,048
Capital redemption reserve fund	8	**343,516**	-
Other reserves		**(18,210)**	2,921
Retained earnings		**(38,456)**	31,470
Total equity		**816,306**	403,363
LIABILITIES			
Non-current liabilities			
Borrowings		**384,443**	501,652
Derivative financial instruments		**5,778**	4,932
Deferred tax liabilities		**-**	16,252
Provisions for other liabilities and charges		**72,283**	80,132
		462,504	602,968
Current liabilities			
Trade and other payables		**525,642**	364,527
Current income tax liabilities		**-**	3,889
Borrowings		**65,917**	54,075
Derivative financial instruments		**21,294**	-
Provisions for other liabilities and charges		**33,043**	65,145
		645,896	487,636
Total liabilities		**1,108,400**	1,090,604
Total equity and liabilities		**1,924,706**	1,493,967

Group Statement of Changes in Equity

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Capital conversion reserve fund**	**Capital redemption reserve fund**	**Cash flow hedging reserve**	**Available for sale reserve**	**Retained earnings**	**Total equity**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance at 1 January 2005	357,829	6,095	5,048	-	-	6,530	(57,437)	318,065
Profit for the year							88,907	88,907
Fair value gains/(losses), net of tax:								
– available for sale financial assets	-	-	-	-	-	(4,125)	-	(4,125)
Deferred tax impact	-	-	-	-	-	516	-	516
Total recognised income for 2005	-	-	-	-	-	(3,609)	88,907	85,298
Balance at 31 December 2005	357,829	6,095	5,048	-	-	2,921	31,470	403,363
Loss for the year	-	-	-	-	-	-	(69,926)	(69,926)
Fair value gains/(losses), net of tax:								
– available for sale financial assets	-	-	-	-	-	(2,135)	-	(2,135)
- derivative financial instruments	-	-	-	-	(22,013)	-	-	(22,013)
Deferred tax impact					2,750	267	-	3,017
Total recognised loss for 2006	**-**	**-**	**-**	**-**	**(19,263)**	**(1,868)**	**(69,926)**	**(91,057)**
Renominalisation of shares	(343,516)	-	-	343,516	-	-	-	-
Issue of new shares	12,137	521,863	-	-	-	-	-	534,000
Write off of flotation expenses	-	(30,000)	-	-	-	-	-	(30,000)
Balance at 31 December 2006	26,450	497,958	5,048	343,516	(19,263)	1,053	(38,456)	816,306

Group Cash Flow Statement

		Year ended 31 December	
		2006	**2005**
		€'000	**€'000**
Cash flows from operating activities			
Cash generated from operations	9	**123,301**	58,085
Interest paid		**(25,287)**	(24,538)
Income tax (paid)/refunded		**(8,629)**	1,159
Net cash generated from operating activities		**89,385**	34,706
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		**(71,292)**	(77,363)
Proceeds from sale of PPE		**4,336**	3,532
Purchases of intangible assets		**(3,299)**	(2,313)
Movements in available for sale financial assets		**29,961**	(16,828)
Movements in other deposits		**(510,604)**	(21,239)
Dividends received		**1,567**	-
Interest received		**37,756**	28,708
Net cash used in investing activities		**(511,575)**	(85,503)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**534,000**	-
Costs arising from issuance of ordinary shares		**(26,020)**	-
Payments to Employee Share Ownership Plan	3	**(17,000)**	-
Proceeds from borrowings		**30,102**	99,353
Repayments of borrowings		**(99,552)**	(50,357)
Net cash generated from financing activities		**421,530**	48,996
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(660)**	(1,801)
Cash, cash equivalents and bank overdrafts at beginning of the year		**(203)**	1,513
Exchange gains on cash and bank overdrafts		**(363)**	85
Cash, cash equivalents and bank overdrafts at end of the year		**(1,226)**	(203)

Basis of preparation

Basis of preparation
This preliminary financial information has been derived from the Group's consolidated financial statements for the year ended 31 December 2006 which have been prepared in accordance with European Union (EU) endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Acts 1963 to 2006 applicable to companies reporting under IFRS. The financial information set out in this document does not constitute full statutory accounts for the year ended 31 December 2006. The IFRS financial information for the years ended 31 December 2005 and 31 December 2006 has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

First time adoption of IFRS
Up to and including the year end 31 December 2005, the group's statutory financial statements were prepared in accordance with Irish Generally Accepted Accounting Principles ('Irish GAAP'). Following admission to the Official List of the Irish Stock Exchange and the Financial Services Authority in accordance with European Union Regulations in October 2006, the Company is required to prepare statutory consolidated financial statements for the year ended 31 December 2006 and the comparative financial information for the year ended 31 December 2005 has been restated on a consistent basis, except where otherwise required or permitted by IFRS 1 "First time adoption of International Accounting Standards". The group's transition date to IFRS for statutory financial statement purposes is 1 January 2005. The rules for first time adoption of IFRS are set out in IFRS 1 and the transition to IFRS has been accounted for in accordance with IFRS 1. In preparing this consolidated financial information the Group has elected to apply certain exemptions available under IFRS 1. In respect of certain flight equipment, the group has availed of the exemption in IFRS 1 to use the fair value of the flight equipment as the deemed cost as at the date of transition. Full details of the accounting policies adopted by the Group on transition to IFRS, and of the impact on the reported results and balance sheet of the Group on transition to IFRS, were included in the Group's prospectus issued in advance of the IPO and available on the Group's website. .

Underlying measures
In addition to the reported profit and earnings per share, the group also discloses underlying performance measures. The group believes that these underlying performance measures provide additional useful information on underlying trends to shareholders. The term underlying is not defined in IFRS and therefore may not be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute to or superior to IFRS measurements of profit. Underlying measures are calculated based on the reported profit under IFRS (as shown in the income statement), excluding the effects of derivatives that do not fulfil the requirements for hedge accounting and exceptional items. The taxation impact of the amounts excluded from underlying profit is also separately disclosed.

Notes to the financial statements

1. Segmental information

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

(i) Primary reporting format - Business Segment

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

Year ended 31 December 2006	**Passenger 2006 €'000**	**Cargo 2006 €'000**	**Unallocated(1) 2006 €'000**	**Total 2006 €'000**
Passenger revenue	997,868	-	-	997,868
Ancillary revenue	63,407	-	-	63,407
Other revenue	5,066	-	-	5,066
Cargo revenue	-	49,471	-	49,471
Segment revenue	1,066,341	49,471	-	1,115,812
Operating profit before exceptional items	129,203	9,191	(106,483)	31,911
Operating losses after exceptional items	129,203	9,191	(239,444)	(101,050)
Finance income				48,552
Finance expense				(26,870)
Loss before taxation				(79,368)
Taxation credit				9,442
Loss for year				(69,926)

(1) Unallocated includes depreciation in relation to unallocated assets of (€57.9 million), the impact of non-qualifying hedges of (€36.8 million), foreign exchange losses of (€4.5 million) and profit share of (€7.3 million)

Year ended 31 December 2005	**Passenger 2005 €'000**	**Cargo 2005 €'000**	**Unallocated(2) 2005 €'000**	**Total 2005 €'000**
Passenger revenue	909,519	-		909,519
Ancillary revenue	47,275	-		47,275
Other revenue	4,306	-		4,306
Cargo revenue	-	41,558		41,558
Segment revenue	961,100	41,558		1,002,658
Operating profit before exceptional items	131,612	6,942	(48,694)	89,860
Operating profit after exceptional items	131,612	6,942	(48,694)	89,860
Finance income				36,667
Finance expense				(26,480)
Profit before taxation				100,047
Taxation charge				(11,140)
Profit for year				88,907

(2) Unallocated includes depreciation relating to unallocated assets of (€59.6 million), the impact of non –qualifying hedges of €8.4 million and foreign exchange gains of €2.5 million.

Assets and Liabilities	**Assets**		**Liabilities**	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Passenger	41,696	39,727	235,868	207,923
Cargo	5,241	2,936	561	3,023
Common assets and liabilities	1,877,769	1,451,304	871,971	879,658
Total	1,924,706	1,493,967	1,108,400	1,090,604

Other segment information	**Capital additions(3)**		**Depreciation(3)**	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Passenger	1,820	1,658	1,509	3,823
Cargo	349	38	107	154
Unallocated	72,422	77,980	56,567	56,826
Total	74,591	79,676	58,183	60,803

(3) *Includes intangible assets*

(ii) Secondary reporting segment - Geographic Segment

Revenues, and related assets and liabilities, are allocated to geographic segments based on the journey destination point of each booking. Other assets and liabilities are allocated on the basis of physical location.

Revenue	**2006**	**2005**
	€'000	**€'000**
Europe	685,176	603,737
Rest of the World	335,163	329,155
Ancillary and other unallocated revenue	95,473	69,766
Total revenue	1,115,812	1,002,658

Assets and capital additions	**Assets**		**Capital additions(4)**	
	2006	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**
Europe	1,798,206	1,290,453	72,712	79,577
Rest of the World	7,597	5,534	1,879	99
Unallocated	118,903	197,980	-	-
Total	1,924,706	1,493,967	74,591	79,676

(4) *Includes intangible assets*

2. Underlying performance measures

In addition to the reported profit and earnings per share, the group also discloses underlying performance measures. The group believes that these underlying performance measures provide additional useful information on underlying trends to shareholders. The term underlying is not defined in IFRS and therefore may not be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute to or superior to IFRS measurements of profit.

Underlying measures are calculated based on the reported profit under IFRS (as shown in the income statement), excluding the effects of derivatives which do not fulfil the requirements for hedge accounting and exceptional items. The taxation impact of the amounts excluded from underlying profit is also separately disclosed.

	2006	2006	2006	2005	2005	2005
	€'000	€'000	€'000	€'000	€'000	€'000
	Underlying	Amounts excluded from underlying	Total IFRS	Underlying	Amounts excluded from underlying	Total IFRS
Revenue	1,115,812	-	**1,115,812**	1,002,658	-	**1,002,658**
Operating Expenses:						
Staff costs	270,093	-	**270,093**	249,377	-	**249,377**
Depreciation, amortisation and impairment	58,183	-	**58,183**	60,803	-	**60,803**
Aircraft operating lease costs	49,647	-	**49,647**	44,902	-	**44,902**
Fuel and oil (1)	200,604	33,523	**234,127**	138,857	(4,715)	**134,142**
Maintenance expenses	72,594	-	**72,594**	75,276	-	**75,276**
Airport charges	200,720	-	**200,720**	178,715	-	**178,715**
En-route charges	49,470	-	**49,470**	43,477	-	**43,477**
Distribution costs	43,274	-	**43,274**	42,356	-	**42,356**
Ground operations, catering & other operating costs	90,746	-	**90,746**	89,940	-	**89,940**
Other (gains)/ losses – net (2)	4,471	3,249	**7,720**	(2,477)	(3,713)	**(6,190)**
	1,039,802	36,772	**1,076,574**	921,226	(8,428)	**912,798**
Operating profit before employee profit share and exceptional items	**76,010**	**(36,772)**	**39,238**	**81,432**	**8,428**	**89,860**
Employee profit share	(7,327)	-	**(7,327)**	-	-	-
Operating profit before exceptional items	**68,683**	**(36,772)**	**31,911**	**81,432**	**8,428**	**89,860**
Exceptional items (3)	**-**	**(132,961)**	**(132,961)**	-	-	-
Operating profit/ (loss) after exceptional items	**68,683**	**(169,733)**	**(101,050)**	**81,432**	**8,428**	**89,860**
Finance income	48,552	-	**48,552**	36,667	-	**36,667**
Finance expense	(26,870)	-	**(26,870)**	(26,480)	-	**(26,480)**
Profit/(loss) before taxation	**90,365**	**(169,733)**	**(79,368)**	**91,619**	**8,428**	**100,047**
Taxation credit/(charge)	(13,025)	22,467	**9,442**	(10,086)	(1,054)	**(11,140)**
Profit/(loss) for the year	**77,340**	**(147,266)**	**(69,926)**	**81,533**	**7,374**	**88,907**
Attributable to:						
Equity holders of the Company			**(69,926)**			**88,907**
Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in € per share)						
– basic	22.2c		(20.0)c	28.5c		31.1c
– diluted	22.1c		(20.0)c	28.4c		31.0c

(1) *Prior to 2006, the company had entered into fuel derivatives which, although being effective commercial hedging arrangements, do not fulfil the requirements for hedge accounting under IAS39. The amount excluded from the underlying measure in the period consists of the unrealised gains on these derivative contracts of €nil (2005: €24.8 million), net of the additional cost of fuel arising from non-qualifying fuel derivative contracts recorded in the year of €33.5 million (2005: €20.1 million).*

(2) *Prior to 2006, the company had entered into interest rate and foreign exchange derivatives which, although being effective commercial hedging arrangements, do not fulfil the requirements for hedge accounting under IAS39. The amount excluded from the underlying measure in the period consists of fair value gains on foreign exchange option and forward contracts of €nil (2005: €25 million), losses on foreign exchange options and forward contracts incurred of €3.9 million (2005: €20.6 million), fair value losses on interest rate swaps of €0.7 million (2005: gains of €0.9 million) and fair value gains on cross currency interest rate swaps of €1.3 million (2005: losses of €1.6 million).*

In relation to items (1) and (2) above, in order to qualify for hedge accounting under IFRS, IAS 39 Financial Instruments: Recognition and Measurement), an entity must, amongst other things, designate and document its hedging arrangements as hedges prior to entering into such arrangements as well as its risk management strategy for undertaking the hedge. In addition, it must establish that each hedging arrangement was highly effective in offsetting the designated hedged risk as at each balance sheet date and that there is an expectation that the hedging arrangement will continue to be highly effective in the future. Aer Lingus has entered into commercial hedging arrangements in relation to its fuel, foreign exchange and financing obligations which, prior to 1 January 2006, did not meet these hedge accounting requirements under IAS39. As a result changes in the fair value of these arrangements are recognised immediately in the Income Statement, rather than being recorded in shareholders equity in the Balance Sheet at each Balance Sheet date and subsequently recorded in the Income Statement in the period in which the hedge item affects the Income Statement.

(3) *Exceptional items are material non-recurring items that derive from events or transactions that fall within the ordinary activities of the group and which individually or, if of a similar type, in aggregate are separately disclosed by virtue of their size or incidence. Such items may include business repositioning costs, profit or loss on disposal of significant items of property, plant & equipment, litigation costs and settlements, profit or loss on disposal of investments and impairment of assets. Judgement is used by the Group in assessing the particular items which should be disclosed in the Income Statement and related notes as exceptional items. In 2006 exceptional items were recorded in relation to the company contribution to supplemental pension arrangements, the payment to the ESOT in relation to capitalisation of pay increases as part of the IPO arrangements, the costs incurred in relation to the defence of a takeover bid, as well as a profit of €4.3 million on the sale of aircraft engines.*

3. Exceptional items

	2006	**2005**
	€'000	**€'000**
Profit on disposal of Property, plant & equipment (a)	(4,259)	-
Takeover defence costs (b)	16,220	-
Staff Costs		
- Pension (c)	104,000	-
- Employee Share Ownership Plan (d)	17,000	-
	132,961	-

(a) Profit on sale of aircraft engines
(b) Provision for costs incurred in 2006 in the defence of takeover bid
(c) Provision for once off contribution to supplemental funds (see note 11)
(d) Capitalisation of pay increase foregone (€12m) and payment arising under previous profit sharing scheme (€5m) agreed as part of the IPO arrangements (see note 10)

4. Finance expense and finance income

	2006	2005
	€'000	€'000
Finance expense		
On bank loans and overdrafts	1,504	1,634
Finance lease interest	23,888	22,916
Other interest	183	254
Finance charge on discounted provision	1,295	1,676
	26,870	26,480
Finance income		
Interest on cash and term deposits	39,034	30,449
Amortisation of discount	6,367	6,218
Dividends received	1,567	-
Profit on disposal of Available For Sale Financial Asset	1,584	-
	48,552	36,667

5. Earnings per share

(a) Basic
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
(Loss)/Profit attributable to equity holders of the Company	(69,926)	88,907
Weighted average number of ordinary shares in issue (000's)	348,877	286,263
Basic earnings per share (c per share)	(20.0)c	31.1c

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares in its bonus shares. Under the terms of the IPO, subscribers in the intermediaries, employee and Approved Profit Sharing Scheme (APSS) participant offers were allotted one bonus share for every 20 shares subscribed for by them. In each case the bonus share will be issued to them (with no further payment required) provided they hold those shares for a continuous period of one year from admission to listing (ie until 2 October 2007). When the bonus shares are to be issued, entitlements to the bonus shares will be based on the lowest number of shares held continuously by or on behalf of the relevant shareholder applicant from 2 October 2006. Fractions of bonus shares will be rounded down to the nearest whole share when calculating individual entitlements. Bonus share entitlements will be calculated separately in respect of shares held in certificated form and uncertificated form. In the event of any share capital changes prior to the issue of the bonus shares, the bonus shares shall carry no right or entitlement to be adjusted in any way. Bonus shares shall carry no right to vote or receive any dividend prior to the date they are issued. In the event that bonus shares are not issued, no repayment of any kind shall be made to subscribers.

	2006	2005
(Loss)/profit attributable to equity holders of the Company used to determine diluted earnings per share	(69,926)	88,907
Weighted average number of ordinary shares in issue (000's)	348,877	286,263
Adjustments for:		
– Bonus issue of 1 for 20, October 2007	863	863
Weighted average number of ordinary shares for diluted earnings per share (000's)	349,740	287,126
Diluted earnings per share (cent per share)	(20.0)c*	31.0c

** The effects of anti-dilutive potential ordinary shares have been ignored in calculating diluted EPS.*

(c) Underlying

	2006	2005
Profit attributable to equity holders of the Company – underlying (Note 2)	77,340	81,533
Basic earnings per share – underlying (cent per share)	22.2c	28.5c
Diluted earnings per share – underlying (cent per share)	22.1c	28.4c

Weighted average number of shares are the same as used in section (b) above.

6. Cash, cash equivalents and other deposits

	2006	2005
	€'000	€'000
Cash and deposits with an original maturity of less than three months	5,506	4,251
Restricted Deposits	141,188	196,428
Other Deposits	1,058,103	520,269
	1,204,797	720,948
Less non current portion	(136,198)	(191,921)
Current	1,068,599	529,027

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

Cash and deposits with an original maturity of less than three months	5,506	4,251
Bank overdrafts	(6,732)	(4,454)
	(1,226)	(203)

Current deposits have maturity terms of between three and twelve months. Given the maturity of these investments fall outside the three months timeframe for classification as cash and cash equivalents under IAS 7 Cash Flow Statements, the related balances have been treated as financial assets. The effective interest rate on financial assets classified as current deposits was 3.8% (2005: 2.9%); these deposits have an average maturity of 57 days (2005: 84 days).

Non current deposits comprise foreign currency deposits held in order to meet certain finance lease obligations which are denominated in the same currency. The deposits, together with the interest receivable thereon, will be sufficient to meet the lease obligations and related lease interest over the period of the leases. The Group also holds other restricted deposits to meet certain other obligations.

7. Called-up share capital

	2006	2005
	€'000	€'000
Authorised:		
2005: 500,000,000 ordinary shares of €1.25 each		625,000
2006: 900,000,000 ordinary shares of €0.05 each	45,000	
Issued and fully paid:		
At 1 January	357,829	357,829
Shares cancelled during year	(343,516)	-
Issued during year: 242,727,272 @ €0.05	12,137	-
At 31 December	26,450	357,829

During the year, a share split occurred such that ordinary shares of €1.25 each were split into ordinary shares of €0.05 and deferred shares of €1.20. The deferred shares were subsequently cancelled. The authorised share capital was also amended to 900,000,000 ordinary shares of €0.05 each.

8. Share premium and capital redemption reserve fund

	2006	2005
	€'000	€'000
Share premium		
Beginning of year	6,095	6,095
Shares issued at premium	521,863	-
Write off of flotation expenses	(30,000)	-
End of year	497,958	6,095

	2006	2005
	€'000	€'000
Capital redemption reserve fund		
Beginning of year	-	-
Cancellation of deferred shares	343,516	-
End of year	343,516	

9. Cash Generated From Operations

	2006	2005
	€'000	€'000
(Loss)/profit for the period	(69,926)	88,907
Adjustments for:		
– Tax	(9,442)	11,140
– Depreciation	54,315	58,009
– Amortisation	3,868	2,794
– Profit on sale of property, plant and equipment (see below)	(63)	(52)
– Profit on sale of available for sale assets	(1,584)	-
– Net movements in provisions for liabilities and charges	(39,024)	(65,234)
– Net fair value losses/(gains) on derivative financial instruments	38,109	(34,299)
– Interest income	(46,968)	(36,667)
– Interest expense	26,870	26,480
– Exceptional items (Note 3)	132,961	-
– Exchange gains	2,132	(1,812)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	319	(281)
– Trade and other receivables	(1,475)	(4,990)
– Trade and other payables	33,209	14,190
– Other	-	(100)
Cash generated from operations	123,301	58,085

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006	2005
Net book amount	(1,177)	3,480
Profit on sale of property, plant and equipment	63	52
Transfer to provisions	1,191	-
Exceptional profit on sale of property, plant and equipment (Note 3)	4,259	-
Proceeds from sale of property, plant and equipment	4,336	3,532

10. Employee Participation

Employee Share Ownership Plan ("ESOP")
Aer Lingus ESOP Trustee Limited (ESOT) acts as the sole trustee of the Aer Lingus Employee Share Ownership Plan (ESOP). The ESOP was established by a Trust Deed executed on 28 April 2003. Through a combination of an issue of shares to ESOT, and the purchase by the ESOT of shares previously held by staff under an Approved Profit Sharing Scheme (APSS), the ESOT held 12.59% of the issued share capital of the company immediately prior to the IPO of the company's shares.

At the time of the IPO, the ESOT subscribed for further shares using a combination of funds due to it under a previous profit sharing scheme and a payment from the Group of €12 million arising from the capitalisation of a pay increase foregone of 0.5%. Following the issue of new shares under the IPO, the ESOT's shareholding immediately after the IPO amounted to 9.92% (51,028,679 shares) of the company's issued share capital.

At the time of the IPO, the ESOT was granted an option to acquire 15,549,301 shares held by the Minister for Finance. The company was advised that this option was exercised on 3 November 2006 resulting in the ESOT holding 66,577,980 shares (12.59%) of the issued share capital of the company at 31 December 2006. The ESOT holds these shares on behalf of beneficiaries.

The ESOT is also trustee of the Aer Lingus Approved Profit Sharing Scheme and, at 31 December 2006 held 9,564,570 shares (1.8%) in the company on behalf of beneficiaries. Certain of these shares are subject to a minimum holding period requirement specified by the Irish Revenue Commissioners.

Profit Sharing Scheme
At the time of the IPO, a new profit sharing scheme was established whereby the Group agreed to make available to the ESOT , depending on the return on average shareholders' funds, between 0% and 7.5% of the group profit before taxation and exceptional items annually, commencing on 1 January 2006. This profit share is to be used by the ESOT to any expenses and to repay all borrowings arising from the exercise of the option over 15,549,301 shares referred to above.

11. Pensions and other post employment benefits

The Group operates a number of externally funded pension schemes for the majority of its employees. The Irish Pension Schemes meet the definition of defined benefit schemes under the terms of the Pensions Act 1990. One of the Irish Pension Schemes, the Irish Airline (General Employees) Superannuation Scheme (the Main Scheme) is operated in conjunction with a number of other employers.

The Group and employees contribute a fixed percentage of salaries each year to these schemes which does not vary according to the funded level of the Irish Pension Schemes.

The rules of the Irish Pension Schemes provide for the following in the event that there is an actuarial surplus or deficiency in the schemes:

- **Surplus**

  If an actuarial valuation discloses a surplus, it shall be applied by the trustees, after consultation with the Actuary, for the purpose of increasing the benefits to members or reducing the rate of contribution by the employers and/or members.

- **Deficiency**

  If an actuarial valuation discloses a deficiency, the trustees shall take such measures as they think appropriate, having regard to the recommendations of the actuary, to remedy any such actual or anticipated deficiency provided that no such measures shall, without the consent of the employers, make provision for payment of any increased contribution by the employers or without the consent of the members make provision for the payment of any increased contribution by the members.

As the company contribution rate is entirely independent of the Irish Pension Schemes funding level, the value of the Irish Pension schemes' assets and liabilities are not relevant in the context of reporting under IAS 19, Retirement Benefits.

The Group's contributions charged for the year were €17.6 million (2005: €15.9m), based on rates specified by the scheme rules. The actuarial reports are not available for public inspection.

At the time of the IPO, the Group reached agreement with the trade unions representing the majority of staff to establish two supplemental funds. The purpose of these funds is to meet, insofar as funds allow and at the discretion of the trustees of these funds, the cost of providing indexation in line with inflation in respect of the pension benefits of the Aer Lingus pensioners, deferred pensioners and current employee in the main scheme in the event that the trustees of the main scheme in any particular year do not pay indexation to these pensions.

The Group will make a once off contribution of up to €104 million from the IPO proceeds to these funds. The Group and current eligible employees who opt to become members of the funds will also pay ongoing annual contributions. As is the case with the Main Scheme, the two supplemental funds are being established on the basis that neither the Group nor a participating employee can be obliged to pay more than the specified contribution to the funds without their written consent.