Aer Lingus Group plc

ISE: EIL1 LSE: AERL

Aer Lingus preliminary results – operating profits grew by 40.7% in 2012

Dublin and London, 6 February 2013 : Aer Lingus Group plc ("Aer Lingus", "the Group") today announced its unaudited preliminary results for the year ended 31 December 2012.

€million unless otherwise indicated	**2012**	**2011**	**Change [2]**
Passengers – mainline operations ('000s)	9,653	9,513	1.5%
Average yield per passenger (€)	120.15	112.27	7.0%
Revenue	1,393.3	1,288.3	8.2%
Operating costs (excluding exceptional items)	(1,324.2)	(1,239.2)	(6.9%)
Operating profit before exceptional items	69.1	49.1	40.7%
Free cash flow[1]	75.2	(24.9)	402.0%
Profit before tax	40.6	84.4	(51.9%)

€million	**31 Dec 2012**	**31 Dec 2011**	**Change [2]**
Gross cash	908.5	894.8	1.5%
Debt	531.6	577.2	7.9%

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] Free cash flow represents cash generated from operating activities less net capital expenditure (purchases of fixed assets exclusive of finance lease raised less proceeds from disposals) plus or minus net interest received/paid.

[2] Sign convention – favourable/(adverse)

2012 financial and operating highlights

- Operating profit, before exceptional items, of €69.1 million (2011: €49.1m), up 40.7% with strong operating margin of 5.0% (2011: 3.8%)
- Total revenue up 8.2% with capacity growth of 0.5%
- Total passengers carried on Aer Lingus services in 2012 (incl. Aer Lingus Regional and the Washington Dulles – Madrid codeshare with United Airlines) of 10.8 million represents the highest number flown in a single year by the Group
- We have increased our load factor by 2.1 points to 77.7%
- Market share ex-Ireland (incl. Aer Lingus Regional) increased by 2 percentage points from 41% to 43%
- Greenfield programme completed. Annualised cost savings target exceeded by 7.4%. (€104.2 million in annualised savings compared to targeted €97.0 million)
- Strong balance sheet; gross cash up 1.5% to €908.5 million as at 31 December 2012. Debt down 7.9% to €531.6 million.
- Subject to shareholder approval, the Board recommends paying an increased dividend of 4 cent per share for 2012, which follows a 3 cent per share dividend for 2011 paid in July 2012
- Free cash flow up €100.1 million (402.0%) to €75.2 million
- Strong yield performance; long haul up 9.6%; short haul up 3.8% and total yield up 7.0%
- Profit before tax is €43.8 million lower than 2011 due to exceptional costs of €26.5million incurred in 2012 with the 2011 result benefitting from an exceptional credit of €37.2 million. This was partially offset by the favourable year on year movement of €20 million in underlying operating profit.
- Q4 operating loss, before exceptional items, of €17.4 million (2011: loss of €17.6 million)

2012 strategic highlights

- Agreed 10 year extension of the successful 'Aer Lingus Regional' franchise with Aer Arann – which carried over 1 million passengers in 2012 and contributed positively to Aer Lingus' operating result
- Equity investment in a new aircraft leasing vehicle alongside two other parties to acquire eight new aircraft for lease to Aer Arann on commercial terms

- Interline and codeshare agreement with Etihad Airways providing access to Australia, Asia-Pacific, the Indian subcontinent and the Middle East through the Etihad network; updated codeshare with United Airlines increasing network opportunities between both parties

- Interline agreement with Air Canada to deliver an enhanced travel experience between Ireland and Canada

- Preliminary agreement with Virgin Atlantic to 'wet lease' four Airbus A320-200 aircraft for an initial three year operating period on domestic UK services between London Heathrow, Aberdeen, Edinburgh and Manchester

- Consolidation of wide body hangar maintenance at our main hub in Dublin

Christoph Mueller, Aer Lingus' CEO commented: *"2012 was an excellent year for Aer Lingus. We made an operating profit for the year which is 40.7% above 2011. Our operating margin, as a measure of our competitiveness, has increased to 5.0% with free cash flow of €75.2 million. Improved processes and service delivery are reflected in a record on-time arrival performance of 88% and a high customer satisfaction level. At 31st December 2012, the number of forward passengers booked on our services was ahead of the figure booked at the same time in 2011 and in January 2013, we recorded the single highest day of revenue booked in our history.*

I firmly believe that this result, representing our third consecutive year of profitability, validates our value carrier business model and shows that our strategy is delivering a leaner, more efficient and profitable airline, to the benefit of customers, shareholders and staff. Therefore we are proposing to pay an increased dividend of 4 cent per share for 2012.

Aer Lingus continues to gain profitable market share from legacy and low cost carriers by offering a combination of competitive intra-European point-to-point services, a profitable long haul business focused on our key markets in Europe and the USA overlaid with competitive connections worldwide with our partners in Europe, the Americas and the Middle East. In 2012, we continued to build our network of strong industry alliances, completing agreements with Etihad and Air Canada. We have also extended our franchise agreement for Aer Lingus Regional services with Aer Arann.

Aer Lingus will return to higher capacity growth in 2013 adding one aircraft on the North Atlantic and four short haul aircraft in co-operation with Virgin Atlantic out of London Heathrow. This represents an increase of 5.0% in our available seat kilometres. We will also fly one Airbus A330 aircraft during the next two winter seasons, with an option for a further one, on behalf of a major European tour operator which will improve aircraft utilisation in the low season. We will also continue to invest in our IT infrastructure, enabling Aer Lingus to deliver superior customer service and convenience while driving down overall costs at the same time.

In 2013, the management team will remain focused on creating demonstrable value for our shareholders. After the successful delivery of the Greenfield restructuring programme in 2012, resolving the complex pension legacy and further efficiency improvements across the organisation will drive the management agenda in 2013."

A presentation for shareholders and analysts will be held on 6 February 2013 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.

Financial summary (unaudited)

	Year ended 31 December		
	2012	2011	Change (i)
	€ million	€ million	
Revenue			
- Passenger revenue			
- Short haul fare revenue	**816.3**	781.0	4.5%
- Long haul fare revenue	**343.5**	287.0	19.7%
- Retail revenue	**176.5**	168.7	4.6%
- Total	***1,336.3***	*1,236.7*	*8.1%*
- Cargo revenue	**45.7**	43.0	6.3%
- Other revenue	**11.3**	8.6	31.4%
- Total	**1,393.3**	1,288.3	8.2%
Operating costs			
- Fuel	**(358.6)**	(288.7)	(24.2%)
- Staff costs	**(266.7)**	(260.5)	(2.4%)
- Airport charges	**(295.3)**	(275.7)	(7.1%)
- Other operating costs	**(403.6)**	(414.3)	2.6%
- Total	**(1,324.2)**	(1,239.2)	(6.9%)
Operating profit before net exceptional items	**69.1**	49.1	40.7%
Net exceptional items (iii)	**(26.5)**	37.2	NM(ii)
Operating profit after net exceptional items	**42.6**	86.3	(50.6%)
Net finance expense	**(1.8)**	(1.9)	NM(ii)
Share of loss of Joint Venture	**(0.2)**	-	NM(ii)
Profit before tax	**40.6**	84.4	(51.9%)
Income tax expense	**(6.5)**	(13.2)	NM(ii)
Profit after tax	**34.1**	71.2	(52.1%)
EBITDAR (iv)	**191.3**	172.8	10.7%
Passengers carried ('000s) (v)	**9,653**	9,513	1.5%
Average yield (€)	**120.15**	112.27	7.0%
Retail revenue per passenger (€)	**18.28**	17.73	3.1%
Available seat kilometres (ASKs) (v) (million)	**18,685**	18,593	0.5%
Passenger load factor (v)	**77.7%**	75.6%	2.1 pts

	31 Dec 2012 € million	31 Dec 2011 € million	Change
Gross cash	**908.5**	894.8	1.5%
Debt	**531.6**	577.2	7.9%

(i) Sign convention: favourable/(adverse)
(ii) NM: Not meaningful
(iii) See Note 4 to financial information for details
(iv) EBITDAR: Earnings before interest, tax, depreciation, amortisation, aircraft rentals and net exceptional items
(v) Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid codeshare service operated in partnership with United Airlines. These figures differ from those published in Aer Lingus' monthly traffic statistics during 2011 which were based on BOOKED passenger numbers.

Traffic and selected KPIs

Statistics	Year ended 31 December			Three months ended 31 December		
	2012	2011	Change	**2012**	2011	Change
Passengers carried ('000s) *						
Short haul	**8,674**	8,616	0.7%	**1,956**	1,971	(0.8%)
Long haul	**979**	897	9.1%	**248**	221	12.2%
Total	**9,653**	9,513	1.5%	**2,204**	2,192	0.5%
Revenue passenger kilometres (RPKs) (million) *						
Short haul	**9,393**	9,331	0.7%	**1,973**	2,055	(4.0%)
Long haul	**5,130**	4,720	8.7%	**1,305**	1,165	12.0%
Total	**14,523**	14,051	3.4%	**3,278**	3,220	1.8%
Available seat kilometres (ASKs) (million)						
Short haul	**12,464**	12,509	(0.4%)	**2,733**	2,791	(2.1%)
Long haul	**6,221**	6,084	2.3%	**1,588**	1,563	1.6%
Total	**18,685**	18,593	0.5%	**4,321**	4,354	(0.8%)
Passenger load factor (%) (flown RPKs per ASKs)*						
Short haul	**75.4%**	74.6%	0.8 pts	**72.2%**	73.6%	(1.4 pts)
Long haul	**82.5%**	77.6%	4.9 pts	**82.2%**	74.5%	7.7 pts
Total	**77.7%**	75.6%	2.1 pts	**75.9%**	74.0%	1.9 pts
Average yield (€)*						
Short haul	**94.11**	90.65	3.8%	**87.73**	83.83	4.7%
Long haul	**350.82**	319.96	9.6%	**332.66**	305.43	8.9%
Total average yield	**120.15**	112.27	7.0%	**115.34**	106.17	8.6%
Aer Lingus Regional passengers carried ('000s)	**1,010**	758	33.2%	**258**	195	32.3%

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

Q4 2012 summary

€million unless otherwise indicated	Q4 2012	Q4 2011	Change [1]
Passengers ('000s)	2,204	2,192	0.5%
Average yield per passenger (€)	115.34	106.17	8.6%
Revenue	306.2	283.4	8.0%
Operating costs	(323.6)	(301.0)	(7.5%)
Operating loss before exceptional items	(17.4)	(17.6)	1.1%

€million	31 Dec 2012	30 Sept 2012	Change
Gross cash	908.5	990.8	(8.3%)
Debt	531.6	549.7	3.3%

[1] Sign convention: favourable/(adverse)

Chief Executive's statement

Introduction

2012 was an excellent year for Aer Lingus. We made an operating profit for the year which is 40.7% above 2011. Our operating margin, as a measure of our competitiveness, has increased to 5.0% with free cash flow of €75.2 million. Improved processes and service delivery are reflected in a record on-time arrival performance of 88% and a high customer satisfaction level. At 31st December 2012, the number of forward passengers booked on our services was ahead of the figure booked at the same time in 2011 and in January 2013, we recorded the single highest day of revenue booked in our history.

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Aer Lingus continues to gain profitable market share from legacy and low cost carriers by offering a combination of competitive intra-European point-to-point services, a profitable long haul business focused on our key markets in Europe and the USA overlaid with competitive connections worldwide with our partners in Europe, the Americas and the Middle East. In 2012, we continued to build our network of strong industry alliances, completing agreements with Etihad and Air Canada. We have also extended our franchise agreement for Aer Lingus Regional services with Aer Arann.

Aer Lingus will return to higher capacity growth in 2013 adding one aircraft on the North Atlantic and four short haul aircraft in co-operation with Virgin Atlantic out of London Heathrow. This represents an increase of 5.0% in our available seat kilometres. We will also fly one Airbus A330 aircraft during the next two winter seasons, with an option for a further one, on behalf of a major European tour operator which will improve aircraft utilisation in the low season. We will also continue to invest in our IT infrastructure, enabling Aer Lingus to deliver superior customer service and convenience while driving down overall costs at the same time.

In 2013, the management team will remain focused on creating demonstrable value for our shareholders. After the successful delivery of the Greenfield restructuring programme in 2012, resolving the complex pension legacy and further efficiency improvements across the organisation will drive the management agenda in 2013.

Significant turnaround since 2009; successful completion of three year Greenfield programme

€' millions	2009	2010	2011	2012
Operating profit/(loss), before net exceptional items	(81.0)	52.5	49.1	69.1

There are five key elements of our new strategy:

- Pricing and yield management: demand led capacity deployment with strongly increased yield performance and the re-capture of market share in an overall declining market
- Multi-channel distribution strategy: maximising use of the web with distribution costs of only 3.4% of revenue. Social media launch in 2012
- Open network architecture: enabling multi-partner approaches for different geographical regions and significantly improved global network reach to and from Ireland
- Focus on customer:

On Time Performance (OTP)	2010	2011	2012
Arrivals within 15 minutes	77%	83%	88%

  i. On time performance of 88% delivered in 2012
  ii. 96% of our customers were satisfied with their overall Aer Lingus experience and 97% of customers will probably fly with us again based on past experience (source: 2012 Ipsos MRBI research for company)
  iii. Other initiatives that have and will enhance customer service include the move into Terminal 2 in Dublin, moving into the Jetblue Terminal 5 in JFK, becoming the anchor tenant in the new Terminal 2 at London Heathrow as of 2014, increased product offering for onboard or pre-booked sales and rolling out of wi-fi access across our long and short haul aircraft

- Competitive cost position: the annual value of savings under the Greenfield restructuring programme was €104.2 million, which is equivalent to 7.9% of total 2012 operating costs

Our partnership model, driven by our neutrality, has significantly contributed to the business. In 2012, approximately 23.0% of our total long haul passenger traffic either connected from, or to, our partner airlines services (2011: 18.5%), while interlining revenues and passenger volumes continue to grow, increasing by 8.8% and 5.5% respectively in 2012 compared to 2011.

Passenger traffic trends	2012	2011	*% Variance*
Inter-line revenues (€m)	65.8	60.5	*8.8%*
Inter-line passengers ('000s)	832	789	*5.5%*

In July 2012, we were pleased to pay our first dividend since our 2006 IPO and paid a total of €16 million for 2011, representing 3 cent per share. Our revised dividend policy, which we announced in May 2012, indicates our intention to pay a dividend for those future years in which we make a profit, provided that payment of such dividend is appropriate and prudent in the context of our financial position, strategic objectives and prospects. For 2012, the board will recommend the payment of a dividend of 4 cent per share, (2011: 3 cent per share) reflecting strong trading in 2012 and our confidence in the future of the business.

Commercial developments in 2012

In 2012, we announced a number of new or expanded partnership agreements and commercial developments:

- The Aer Lingus Regional service, operated by franchisee Aer Arann, entered into its third year. In March 2012, under an extension of the franchise agreement, Aer Lingus and Aer Arann announced that all Aer Arann routes would be operated under the Aer Lingus Regional brand, thereby increasing the range of destinations offered by Aer Lingus. The economics of the turbo prop aircraft operated by Aer Arann are more suitable than jet aircraft for certain routes such as those in the Regional network. In addition to franchise fees receivable from Aer Arann, we also benefit from increased traffic from UK destinations connecting to transatlantic services in Dublin and Shannon. Following on from the expansion of the Aer Lingus Regional franchise agreement in March 2012,

Aer Lingus and Aer Arann agreed a 10 year extension of the Aer Lingus Regional franchise agreement. The Aer Lingus Regional franchise continues to deliver significant network and financial benefits for Aer Lingus.

We also made an equity investment in a new aircraft leasing vehicle which will acquire eight new ATR72-600 aircraft over the next 18 months and then lease these eight aircraft at commercial rates to Aer Arann. This agreement is outlined in more detail below.

- In July 2012, we announced that we had reached commercial agreement with Etihad Airways regarding interline and codeshare arrangements. From September 2012, we now co-operate with Etihad Airways on flights between Abu Dhabi and Dublin and also have full access to market flights across the Etihad network beyond Abu Dhabi to points including Australia, Asia-Pacific, the Indian subcontinent and the Middle East. We are now discussing opportunities to co-operate with Etihad in areas such as joint procurement for mutual benefit. In May 2012, Etihad announced that it had acquired a 2.99% stake in Aer Lingus.

- In November 2012, we signed an updated codeshare agreement with United Airlines ("United"). This updated agreement deepens our relationship with United and provides increased network opportunities for both parties.

- Aer Lingus and Air Canada entered into an interline agreement in September 2012 which is expected to provide our customers with a more seamless travel experience between Ireland and Canada.

- In December 2012, Aer Lingus announced a preliminary agreement, subject to contract, with Virgin Atlantic Airways Limited whereby we will 'wet lease' four Airbus A320-200 aircraft to them on ACMI (aircraft, crew, maintenance and insurance) terms. The proposed agreement is for an initial 3 year period. The four Aer Lingus aircraft are planned to commence operations on 31 March 2013 and it is intended that the aircraft will be deployed, in Virgin livery, on short haul services connecting London Heathrow with Manchester, Edinburgh and Aberdeen. After set up costs, we expect a profit margin in steady state similar to our core short haul operation.

- In December 2012, we also entered into a preliminary agreement, to start in late 2013, to operate an Airbus A330-200 aircraft for the next two Winter seasons, with an option for a further one, on behalf of a major European tour operator. This will enhance our asset utilisation in the traditional low demand winter season.

The enhanced codeshare with United Airlines for the operation of the Washington-Dulles to Madrid route came to an end in October 2012, after three years of successful operations. The A330 aircraft used for the enhanced codeshare operation will be redeployed on the mainline Aer Lingus long haul route network for the 2013 Summer schedule and is expected to generate a profit equivalent to that earned on the enhanced codeshare operation.

During 2012, we announced a decision to relocate our A330 hangar maintenance operations at Shannon to Dublin with effect from January 2013. This will improve the efficiency of our maintenance operations by consolidating our hangar activities at our Dublin hub. The costs of the restructuring have been included within exceptional items in our 2012 financial results.

Investment in aircraft leasing vehicle and extension of Aer Lingus Regional franchise

We acquired 33.3% of the equity in a leasing company (the "Joint Venture"), the purpose of which is to acquire eight new ATR72-600 aircraft over the course of the next 18 months. This vehicle will lease these eight aircraft at commercial rates to our Regional franchise partner, Aer Arann.

Each of the equity investors in the Joint Venture holds an equal one-third shareholding. The aircraft purchase will be financed through a combination of equity and debt financing. Our initial equity is USD$14.2 million with a maximum commitment of USD$17.7 million.

We believe that this asset investment will support our Regional partner, Aer Arann and represents an attractive opportunity which will generate a good financial return for Aer Lingus over the term of the leasing agreement.

Airport changes in 2012

On 28 October 2012, we commenced flying from George Best Belfast City Airport with business routes targeted as part of this change. For example, we now operate 48 weekly flights from Belfast to London Heathrow / London Gatwick. Also during 2012, Aer Lingus and JetBlue agreed that Aer Lingus will move the Group's New York flight operations from Terminal 4 at John F. Kennedy International Airport to JetBlue's acclaimed Terminal 5 at JFK with effect from early 2013. The move will improve the transatlantic passenger experience and reduce connection times.

Medium Term Growth Plan

As I have already noted, our business plan and strategy has been proven to work and in 2012 we have begun to target the next phase of our development, with a goal of delivering profitable growth for our shareholders over the medium term. To that end, I see the Aer Lingus business as having three main components:

- Aer Lingus mainline operations
- Aer Lingus Regional services
- Business and investment opportunities, including wet lease or ACMI ("Aircraft Crew Maintenance and Insurance") opportunities

In respect of each of the above three areas, I will now outline the opportunities that I believe Aer Lingus can exploit to achieve growth in the coming years.

Aer Lingus mainline

Aer Lingus mainline comprises our core short and long haul services connecting Ireland with Europe, the USA and other destinations east and west via our partner airlines. I see our mainline business developing as follows:

- We will grow our Transatlantic business selectively with our home base of Dublin becoming a hub for transfer traffic to and from the US.
- We will continue to add partnerships to grow the number and range of destinations available to Aer Lingus passengers.
- Aer Lingus has considerable experience and strength at London Heathrow. In 2014, we will move to Terminal 2 at Heathrow and this modern facility will provide us with a considerable opportunity to provide short haul feed from Ireland to our partner airlines operating long haul services at both this terminal and other terminals in Heathrow. London Heathrow remains a focal point in our strategy. Despite not obtaining any slots from the remedy package related to the IAG acquisition of bmi, Aer Lingus remains interested in the outright purchase or lease of slots in order to enhance our feeder capabilities in London Heathrow.
- I believe that ancillary revenue is an area with considerable opportunity for us to exploit. We have been particularly active over the past two years in developing our ancillary revenue offering, with the introduction of our "fare family" pricing structures, our "Sky

deli" on-board catering offering and more recently our moves toward pre-order meals and onboard wi-fi access for our passengers. We have a number of initiatives in various stages of development which I am confident will allow us to achieve additional discretionary spend per passenger.

- In order to compensate for weakness in our core Irish market and also the UK market, we will continue to push for sales on both ends of our routes (i.e. inbound and outbound). We are already seeing the benefits of those marketing efforts reflected in our long haul booking profile whereby approximately 60% of our long haul bookings are now generated in the US market. In addition, 47% of our total bookings were sourced from outside Ireland in 2012.

Aer Lingus Regional

Aer Lingus Regional services, operated in conjunction with our partner Aer Arann, have performed strongly over the past two years. In 2012, over 1 million passengers flew on Aer Lingus Regional services, an increase of 33.2% year on year. In respect of Aer Lingus Regional services, we will:

- Continue to pursue the Regional franchise model without compromising Aer Arann's independence
- Encourage the addition of new routes and services where the economics of such developments make commercial sense
- Work with Aer Arann to more closely co-ordinate our schedules with the aim of providing better connectivity options for our customers, a move which would benefit ourselves and Aer Arann

The Joint Venture, as described earlier, will enable Aer Arann to re-fleet, ensuring services are being deployed using modern, efficient aircraft and offering a better and more consistent experience for Aer Lingus Regional passengers.

Business and investment opportunities

Our preliminary 'wet lease' agreement with Virgin Atlantic ("Virgin") will allow us to combine the cost advantages associated with a start up operation and our long standing experience and capabilities of operating at London Heathrow to offer domestic UK services on behalf of Virgin. The agreement represents a development opportunity for Aer Lingus to assess the viability of pursuing an ACMI model with other carriers to grow our profitability. The ACMI model provides a lower risk opportunity for growth than organic expansion. We will look for further scale opportunities with other carriers for us to deploy our experience and cost efficient flying model on their route networks. The increase in available seat kilometres will have a positive effect on our unit costs, allowing us to spread our fixed costs across a broader base of flying. This will indirectly support our pricing capability and flexibility in both our core short haul business and the new business of flying on behalf of other carriers.

In the absence of new aircraft deliveries for the next three to four years, we anticipate strong annual cash generation. Not only does this give us the ability to withstand the crises and disruptions to which the industry is prone, but it will allow us to invest to improve and grow our business. We see opportunities to develop Aer Lingus, and create value for shareholders, by making selective investments in three principal areas:

- Increased ownership mix of our existing fleet
- Slot ownership – particularly at Heathrow – in support of our core business, and
- Upgrades to our customer facing IT systems, particularly if this supports our drive to enhance ancillary revenues and make it easier for passengers to connect to offline destinations through our partnerships and alliances

Taking these components together, I firmly believe that we have the ability to create sustainable growth in the face of the weak economic backdrop. We are well positioned to benefit from any recovery in our core market. Nonetheless, enabling this growth requires us to focus particularly on two key issues:

1. Managing our cost base and
2. Resolving the remaining legacy issues

In respect of managing our costs, while our successful three year Greenfield programme came to an end in 2012, we do not currently plan on initiating another major cost saving programme to replace it. Instead, we will be implementing a range of additional and targeted measures, which will be carefully coordinated, to preserve and progress the considerable savings made under the Greenfield programme. The overall goal of this continued focus on cost control is to protect our operating margin while delivering growth through the measures outlined above.

The most significant legacy issue that remains unresolved relates to two of our pension schemes. This is an issue which I feel is worth outlining in some detail given its significance.

Pension

We are disappointed that the attempts to find a solution to the pension problems facing us have not yet been successful.
The great majority of our staff (other than pilots) are members of the Irish Airlines Superannuation Scheme ("IASS"). This pension scheme is unusual for a number of reasons. Firstly, it is a multi-employer scheme, with the principal other employers being the Dublin Airport Authority ("DAA") and Shannon Airport Authority ("SAA"). Secondly, the contribution rate is fixed and cannot be changed without the agreement of employer and employee. For this reason, from the employer's perspective, it is a defined contribution scheme. However, under the trust deed and rules, the pension scheme targets benefits linked to final salary and length of service. The funding rate and investment performance is inadequate to support these target benefits and, as a result, a substantial deficit has arisen in the scheme. On 31 December 2012, this deficit was estimated to be some €779 million on the minimum funding standard basis. Mathematically, approximately 65% of the schemes liabilities are associated with current or former members of Aer Lingus staff.

We strongly believe that the current funding position of the IASS is unsustainable and that it must now be addressed by the IASS trustees. The deficit in the scheme is so significant that, had the IASS been wound up on 31 December 2012, current employees and former employees who are not yet in receipt of a pension (deferred members) would have received approximately 5% of their expected IASS pension benefits.

I believe that such an outcome would be extremely damaging for the Group, its employees and shareholders. We believe that, as a matter of law, Aer Lingus has no legal responsibility for the deficit in the IASS, and this has been our consistent position. It was confirmed specifically at the time of our IPO in 2006. That said, the likely loss of future pensions is a major industrial relations issue facing the business and it will have to be addressed if we are to move Aer Lingus forward.

In this context, we are attempting to assist in the achievement of a fair outcome that will improve the pension prospects of affected IASS members in a way that will balance the interests of all parties, including shareholders and we are seeking to achieve this in a manner that reflects our firm view that we have no legal obligation for the deficit in the scheme.

The key elements of our proposal are as follows:

- Firstly, the IASS would be closed to new members and benefit accrual for members would cease. The IASS investment policy would be changed by the trustees to reduce risk by investing in fixed income products whose cashflows broadly match the IASS obligations. This approach would result in higher pensions than on a wind-up of the IASS, but is at the sole discretion of the IASS trustees. Aer Lingus would make no financial contribution to the IASS (beyond its regular contributions), which in any event would be discontinued when the IASS closes to future accrual.
- Secondly, Aer Lingus would establish new defined contribution arrangements on competitive terms in respect of the future service of its own employees. Subject to the uptake of Aer Lingus employees, the overall increase in employment costs attributable to the new DC Scheme is not expected to be significant, and
- Thirdly, Aer Lingus is prepared to put in place arrangements to improve the future pensions of affected IASS members provided the balance between costs and benefits is in the interests of all parties, including shareholders. In particular, we are seeking employment cost stability over the coming years. If put in place, any such arrangements are likely to include a once off initial contribution by Aer Lingus to any new DC funds of those affected IASS members, and such contributions would favour those closer to retirement, or on lower incomes. However, the extent to which Aer Lingus would be prepared to make a contribution would be linked to the strength of the commitment of staff to stabilising employment costs.

In combination, these three elements have the potential to provide fair and sustainable pension benefits for affected IASS members significantly beyond the level of coverage which the IASS current funding status can sustain.

The discussions which were held during 2012 at the LRC, and which subsequently involved the Labour Court, staff representatives and a technical group of actuaries and lawyers are complex and involve many parties. There can be no certainty that agreement would be reached between all parties involved. It is also clear that our requirement that Aer Lingus must be in a position to present a business case to shareholders, in terms of employment cost stability, to justify any contribution to be made to new pension arrangements has proved deeply controversial with staff representatives. We have made it clear to all parties that we will seek shareholder approval of any agreement that may be reached. In the meantime we continue to meet our legal obligations, which are to pay the monthly employer contributions to the scheme.

Aer Lingus pilots are members of the Irish Airlines (Pilots) Superannuation Scheme (“the Pilots’ Scheme”). On 31 December 2012 the Pilots’ Scheme was estimated to have a minimum funding standard deficit of approximately €218 million. As with the IASS, the liability of Aer Lingus to contribute to the Pilots’ Scheme is fixed at the current contribution rates and, accordingly Aer Lingus has neither a constructive nor a legal obligation to increase its rate of contributions to the Pilots’ Scheme, even if the scheme is found to have insufficient funds to pay all members the benefits relating to their current or past service. Aer Lingus has recently agreed to engage in a process of discussion with parties affected by the funding shortfall in the Pilots’ Scheme in an attempt to assist in the achievement of a fair outcome that improves the pension prospects of affected Pilots’ Scheme members in a way that will balance the interests of all parties, including shareholders and employees. As is the case with the IASS, the process of discussion will be complex and involve many parties. There can be no certainty that agreement will be reached between all parties involved.

Notwithstanding Aer Lingus’ involvement in the two sets of discussions outlined above, it remains the Group’s position, supported by firm legal advice, that it has no legal or constructive obligation in respect of either the IASS or the Pilots’ Schemes, other than to continue to pay the fixed rate contributions as set out in the trust deeds of these schemes.

Current market dynamics and likely impact on performance

Macroeconomic trading conditions in several of our key markets, particularly the market between the UK and Ireland, remain challenging. Nevertheless we are confident that, with the participation of Aer Lingus Regional, we will once more outperform this market in 2013. In 2012, our total share of all traffic from the three main Irish airports was 39% (2011: 38%). Including Aer Lingus Regional services, our market share was 43% (2011: 41%).

London as a market in its own right showed some anomalies both during and after the Olympic Games. Increased capacity deployment on Dublin to London sectors has and will increase seat capacity above current demand. Aer Lingus’ “shuttle like” product with almost hourly departures remains the product of choice on these routes and we will continue to manage capacity and price according to demand. In 2012 and including Aer Lingus Regional services, our share of the Dublin to London market was 46% (2011: 45%).

In 2012, our market share of all transatlantic traffic from Dublin and Shannon airports was 53% (2011: 49%). Our North Atlantic performance has attracted several other air carriers to announce new transatlantic services from Dublin and Shannon to the US commencing in Summer 2013. The new United Airlines flight from Chicago to Shannon during the Summer and the United Airlines service from Dublin to Washington will, however, carry the Aer Lingus code and will be available to our customers via the Aer Lingus website.

Generally, we are responding to these competitive developments in the Irish market with a renewed focus on inbound markets and inbound traffic on the other end of ex-Ireland routes, principally in Germany and the Benelux region on short haul services and the US on long haul services. We are particularly pleased with our momentum on long haul whereby we now generate approximately 60% of our total long haul bookings from the US. This has the added advantage of reducing our annual requirement to purchase US dollars to meet our fuel costs. In addition, we will actively manage our network and address under-performing routes as well as tactically managing capacity where demand conditions prevail so as to maximise revenue and yield-per-seat performance. At 31 December 2012, the number of passengers booked on our services was ahead of passengers booked at the same time in 2011.

From a cost perspective, non-controllable cost inflation will continue to be a challenge. Forward fuel price pressures have eased somewhat and we are hopeful that there will be no significant further increases in 2013. In any case, we have good protection for the first half of 2013 in particular as a result of our fuel hedging programme. Airport charges are likely to significantly increase in 2013. On a steady state basis (i.e. assuming the same passenger/movement volumes as 2012) airport price increases, notably at Dublin, London Heathrow, Spanish and Italian airports, are expected to add approximately €15.0 million to our costs in 2013. While some of this inflation may be offset by positive yield growth, we nonetheless expect that it will be difficult to fully pass through fuel cost and airport charge inflation to passengers, particularly with the implementation of austerity policies by several European governments and the subsequent expected knock-on impact on customers’ discretionary income in 2013.

We have now reached the third anniversary of our Greenfield cost savings agreement with our unions. In the absence of a deal to resolve the pension issue, which we believe will deliver continued pay restraint, we are likely to face pressure for wage increases in 2013. As I previously noted, we will be implementing a range of targeted and co-ordinated cost reduction measures across our business to preserve, and most importantly progress, the savings generated through our Greenfield programme to ensure our operating margin remains amongst the highest of our European peers.

Ryanair offer

Ryanair indicated its intention to bid for the Group in June and launched a formal offer for Aer Lingus on 17 July 2012.

The Board of Aer Lingus unanimously recommended that shareholders reject that Ryanair offer by taking no action and wrote to shareholders on 31 July and 24 August 2012, respectively, to set out in detail its reasons for rejecting that offer.

On 29 August, the European Commission announced its decision to open an investigation into the competition issues raised by Ryanair's latest offer to acquire control of Aer Lingus, causing Ryanair's offer to lapse. This investigation is currently ongoing and we remain subject to certain provisions of the Irish Takeover Code in the interim. For this reason, there is no "outlook" statement in this preliminary announcement of our 2012 results.

A decision is expected from the European Commission in the first quarter of 2013. In addition, the UK Competition Commission also continues to investigate the effects of Ryanair's minority shareholding in Aer Lingus and on 13 December 2012, the UK Court of Appeal rejected Ryanair's attempt to halt the UK Competition Commission's investigation into Ryanair's minority shareholding in Aer Lingus.

Balance sheet strength

Aer Lingus continues to benefit from significant balance sheet strength. Gross cash balances as at 31 December 2012 were €908.5 million, an increase of €13.7 million over the year. All Group borrowings are associated with aircraft asset purchases. The Aer Lingus debt maturity profile is spread over several years to 2023.

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

Conclusion

Aer Lingus has changed significantly since the loss making years of 2008 and 2009 but there are still many opportunities to be seized and some challenges to be addressed. We are faced with some headwinds moving into 2013, not least from inflation in non-controllable costs, particularly airport charges, but also from continuing weakness in our primary markets (i.e. Ireland and the UK). However, we leave 2012 with good momentum in our long haul business. In 2013, management will remain focused on creating demonstrable value for our shareholders. We will continue to explore commercial opportunities to grow our business profitability and build on recent accomplishments such as the Virgin Atlantic 'wet lease' agreement and the extension of the successful Aer Lingus Regional franchise agreement. In addition, we cannot afford to let up in our pursuit of cost reduction measures to ensure the continuing competiveness and flexibility of the Group in 2013 and subsequent years.

We remain focussed on delivering value to our shareholders. Over the last three years we have turned Aer Lingus around, instituted a new annual dividend policy and generated total shareholder return in the upper quarter of the European industry. With a view to the future, and with shareholder consent, we have embarked on a process to reduce the Group's capital which, if court approval can be obtained, will give us the ability to maintain or, if appropriate, enhance our distributions to shareholders.

I would like to thank our staff and management team for their hard work in 2012 and their continued focus in 2013. In addition, I would like to thank our shareholders for their support of our efforts since 2009 and in future years.

Christoph Mueller,
Chief Executive Officer

Full year 2012 financial review

Introduction

Aer Lingus delivered an operating profit, before net exceptional items, of €69.1 million for 2012 (2011: profit of €49.1 million). This excellent operating result builds on the strong performance achieved under the successful turnaround strategy for the Group and represents the third consecutive year of operating profitability since 2009. From a loss before exceptional items of €81.0 million in 2009, we have successively reported operating profits, before exceptional items, of €52.5 million in 2010, €49.1 million in 2011 and now €69.1 million for 2012.

The 2012 operating result was achieved against a difficult economic backdrop, characterised by weak demand in our key Irish and UK markets and also significant inflationary pressure on non-controllable costs, principally fuel and airport charges. In addition to an effective performance on revenue and cost control, the 2012 full year result has also benefitted from the non-recurrence of operational disruption in Q1 2011 which was estimated to have cost approximately €15 million in lost revenue and additional costs.

Net profit before tax of €40.6 million for 2012 was €43.8 million, or 51.9%, below the figure recorded for 2011. However, the decrease in pre-tax profit can be attributed to exceptional items and is not reflective of the underlying profitability of the business. In 2011, exceptional gains were recorded on the surrender of the Group's leasehold interest in the Head Office Building at Dublin Airport to DAA plc and also from releases of amounts from the cash flow hedging reserve relating to foreign currency hedges on long haul aircraft orders that became surplus to requirements. In 2012, exceptional items include costs associated with restructuring our Shannon aircraft maintenance operations and legal and professional fees associated with Ryanair Holding plc's third takeover offer for the Group which was formally made on 17 July 2012.

Passenger revenue

	2012	2011	% Increase/ (decrease)
Passenger fare revenue (€ million)	1,159.8	1,068.0	8.6%
Passenger numbers ('000s) (excluding Aer Lingus Regional and UA codeshare)	9,653	9,513	1.5%
ASKs (million)	18,685	18,593	0.5%
Load Factor	77.7%	75.6%	2.1 pts
Yield per passenger (€)	120.15	112.27	7.0%
Fare revenue per seat (€)	88.70	82.31	7.8%

Passenger fare revenue for the year was 8.6% ahead of 2011 driven by higher passenger numbers (+1.5%), an increase in load factor (+2.1 pts), and increased yield (+7.0%). Capacity (measured by ASKs) increased by just 0.5%. The positive figures fully reflect the success of our current strategy of carefully managing capacity deployment across the network, focusing on higher yielding, time sensitive demand to drive increases in yield and fare revenue per seat.

Short haul

Short haul performance	2012	2011	% Increase/ (decrease)
Short haul passenger Revenue (€ million)	816.3	781.0	4.5%
Short haul passengers ('000s) (excluding Aer Lingus Regional)	8,674	8,616	0.7%
Load Factor	75.4%	74.6%	0.8 pts
Yield per passenger (€)	94.11	90.65	3.8%
Fare revenue per seat (€)	68.67	66.09	3.9%

Short haul fare revenue increased by 4.5% in 2012 to €816.3 million (2011: €781.0). The positive revenue performance was driven by a 0.7% increase in passenger numbers (excluding Aer Lingus Regional), a 0.8 pt increase in load factor and a 3.9% increase in fare revenue per seat. Yield per short haul passenger increased by 3.8% and continues a positive trend in yield growth on short haul over the past three financial years.

€	2012	*Growth vs. prior year %*	2011	*Growth vs. prior year %*	2010	*Growth vs. prior year %*
Short haul yield per passenger	94.11	*3.8%*	90.65	*5.5%*	85.92	*11.4%*

Short haul capacity, measured by ASKs, decreased by 0.4% in 2012, with the decrease attributed to more effective network management as opposed to cancellation of services (the decrease of 0.4% would actually have been greater were it not for the impact of the industrial dispute on Q1 2011 on the overall 2011 comparatives). Two A319 aircraft were introduced to the fleet in Q1 2012 to replace two higher capacity A320 aircraft, one of which exited in June 2012 and the second in August 2012. Short haul capacity has been proactively managed over the past three years in line with our strategy to better match network capacity with underlying market demand.

Short haul capacity deployment	2012	2011	2010
Capacity growth/(decline) year on year %	(0.4%)	2.6%	(7.8%)

Overall, time sensitive and business orientated routes continued to perform well in 2012. Robust trading was noted across central European routes such as Spain, Italy, Portugal and Germany offsetting some weakness in the UK market. In Q3 2012, we experienced particularly weak trading on London routes as a result of the Olympic Games. For the duration of the Olympic Games, there was a distinct lack of business demand on such routes. However traditional key leisure routes such as Spain, Portugal and Italy performed strongly during the holiday months of Q3, somewhat offsetting this negative impact.

In 2013, we plan to introduce two further A319 aircraft into the mainline short haul fleet to replace two A320 aircraft. This development will reduce overall capacity across the fleet.

Long haul

Long haul performance	2012	2011	% Increase/ (decrease)
Long haul passenger Revenue (€ million)	343.5	287.0	19.7%
Long haul passengers ('000s) (excluding UA codeshare)	979	897	9.1%
Load Factor	82.5%	77.6%	4.9 pts
Yield per passenger (€)	350.82	319.96	9.6%
Fare revenue per seat (€)	289.12	248.03	16.6%

Under the revised Group strategy implemented from 2009, the long haul business of Aer Lingus was fundamentally changed with capacity significantly cut by terminating under-performing routes and re-focusing long haul services on key routes where significant benefits could be realised from partnerships and interlining with other carriers. The overall aim of this approach was to restore long haul services to profitability and this goal has been achieved.

Long haul capacity deployment	2012	2011	2010
Capacity growth/(decline) year on year %	2.3%	0.0%	(24.1%)

Total long haul revenue in 2012 increased by 19.7% compared to 2011. The excellent performance reflected strong market demand which saw passenger numbers increase by 9.1%, load factor increase by 4.9 pts and yield per passenger increase by 9.6%. The strong performance was achieved alongside an increase in capacity of 2.3% in the year. The increase in capacity can be partly attributed to the industrial action which disrupted operations in Q1 2011. As noted with short haul, we have successfully achieved strong yield growth on long haul services over each of the last three financial years. Demand continues to be strong and we will deploy the returning aircraft from the enhanced codeshare with United Airlines on our own long haul fleet this summer.

€	2012	*Growth vs. prior year %*	2011	*Growth vs. prior year %*	2010	*Growth vs. prior year %*
Long haul yield per passenger	350.82	*9.6%*	319.96	*5.2%*	304.07	*18.9%*

Business class passengers increased by 10.4% and accounted for approximately 22% of total long haul revenue in 2012 (2011: 22%). The load factor achieved in business class was 65% (2011: 61%). Our continued ability to attract business class passengers reflects our focus on improving the business class experience on long haul services and the connectivity provided to business travellers though our open network architecture and partnerships with connecting airlines in US, Europe and Middle East.

Retail revenue

Retail revenue performance	2012	2011	% Increase/ (decrease)
Retail revenue (€ million)	176.5	168.7	4.6%
Retail revenue per passenger (€)	18.28	17.73	3.1%

Retail revenue continues to be a key area of focus. In 2011, we introduced a number of initiatives which, alongside an increase in passenger numbers, helped to increase retail revenue in 2012 overall by 4.6% and retail spend per passenger by 3.1%. The initiatives we introduced in 2011 included advanced seat selection, pay-to-use lounge access and also a new in-flight catering offering branded "*Sky Deli*", which performed well in 2012. Retail revenue per passenger has followed a positive trajectory since 2010:

€	2012	*Growth vs. prior year %*	2011	*Growth vs. prior year %*	2010	*Growth vs. prior year %*
Retail revenue per passenger	18.28	*3.1%*	17.73	*0.3%*	17.67	*5.5%*

We are currently working on new products and initiatives to continue the growth in this revenue category on an overall and per passenger basis by attracting increased passenger discretionary spend. The most significant elements of retail revenue continue to be onboard sales revenues, baggage fees, on-line booking fees and seat selection fees.

Cargo

Cargo revenue performance	2012	2011	% Increase/ (decrease)
Cargo revenue (€ million)	45.7	43.0	6.3%
Cargo tonnes - scheduled ('000s)	28,140	27,653	1.8%

Aer Lingus' strategy is to carry cargo on both long haul and short haul services where turnaround times permit. We utilise available hold capacity of passenger aircraft to generate additional revenue through cargo services as opposed to operating dedicated cargo aircraft. Cargo revenue increased by 6.3% in 2012 to €45.7 million as a result of a 1.8% increase in tonnes carried and a 4.4% increase in the yield per scheduled cargo tonne flown. Approximately 80% of cargo revenue is earned on our long haul services.

Operating costs

€ million	2012	2011	% Increase/ (decrease)
Total operating costs, before net exceptional items	1,324.2	1,239.2	6.9%

Total operating costs, before net exceptional items, increased by 6.9% to €1,324.2 million (2011: 1,239.2 million). This increase was driven primarily by higher fuel costs and higher airport charges as capacity increased by only 0.5% and pay continued to be frozen under the Greenfield programme. Fuel and airport charge costs made up 49.3% (2011: 45.5%) of the total Group operating expenses in 2012 and we are generally a price taker in both cost categories.

€ million	2012	2011	% Increase/ (decrease)
Fuel cost	358.6	288.7	24.2%

Fuel costs represented 27.0% of total operating costs in 2012 (2011: 23.3%). Capacity deployment increased by 0.5% overall, which resulted in no significant increases in block hours (+1.0%) and hence fuel burn. The increase in fuel cost was predominantly driven by adverse movements in price and FX. The average cost of fuel per tonne (including into-plane fees) increased by 12.3% from US$937 in 2011 to US$1,052 per tonne in 2012. In addition, the weaker euro also significantly increased cost. The average US$ to Euro exchange rate in 2012 of 1.29 compares unfavourably to the average rate of 1.40 in 2011. In euro (€) terms, the fuel price per tonne (including into-plane fees) rose from €668 in 2011 to €817 in 2012. Part of this increase was protected by our dollar hedging programme, and effects are reported as part of "Other gains and losses" discussed below.

€ million	2012	2011	% Increase/ (decrease)
Staff cost	266.7	260.6	2.4%

The increase in staff costs year on year is primarily driven by an increase in FTEs across the Group resulting from recruitment required to support increased operational activity and to provide the skills we need for the future. In particular this includes recruitment of flight crew, operations and catering staff and apprentices in our maintenance department. Pay rates remained frozen under the Greenfield deal.

€ million	2012	2011	% Increase/ (decrease)
Airport & en-route charges	356.7	335.3	6.4%

Aer Lingus is a price taker in respect of airport charges, which represented 22.3% of total operating expenses in 2012 (2011: 22.2%). During 2012, higher passenger volumes, significant price increases (particularly at London Heathrow and Spanish airports) and unfavourable FX movements contributed to an increase in cost year on year. En -route charges increased by 2.8% largely due to the impact of unfavourable FX movements and an overall increase in flights in 2012 as 2011 flight volumes were negatively impacted by an industrial dispute in Q1 2011. In 2013, and on a steady state basis (i.e. assuming the same passenger/movement volumes as 2012), price increases, notably at Dublin, London Heathrow, Spanish and Italian airports, are expected to add approximately €15.0 million to costs.

€ million	2012	2011	% Increase/ (decrease)
Maintenance costs	60.1	58.1	3.4%

Maintenance costs increased year on year by 3.4% due to a 1.0% increase in block hours flown in 2012 compared to 2011. In addition, a large proportion of our maintenance costs are denominated in US$ and the relative strengthening of the US$ against the Euro in 2012 drove an adverse variance on such costs.

€ million	2012	2011	% Increase/ (decrease)
Depreciation	76.1	79.8	(4.6%)

The reduction in depreciation charge year on year is largely due to aircraft related costs. In 2011, accelerated depreciation was provided on retrofits of A330 aircraft, with such charges not repeated in 2012. In addition, an A320 aircraft that was included in our fleet for most of 2011 was classified as 'held for sale' for most of 2012 and therefore was not depreciated. As at 31 December 2012, this aircraft has been taken back into our fleet on the basis of our plans to deploy it on our mainline services in 2013. The reduction in depreciation charge associated with aircraft was offset by higher depreciation on IT and premises costs, both of which have seen investment in recent years.

€ million	2012	2011	% Increase/ (decrease)
Aircraft operating lease costs	46.1	43.9	5.0%

Our aircraft operating lease costs are denominated in US$. The increase in aircraft operating lease costs year on year is driven by unfavourable movements in the EUR/US$ FX rate in 2012 whereby the rate moved from an average of 1.40 in 2011 to 1.29 in 2012. The increase in cost due to FX movements was somewhat offset by timing of returns and acquisitions of operating leased aircraft in 2011 and 2012.

€ million	2012	2011	% Increase/ (decrease)
Distribution costs	47.0	46.7	0.6%

The increase in distribution costs on prior year is attributable to higher credit card handling charges, computer reservation system fees and interline service charges due to higher passenger numbers and higher yields offset by a decrease in advertising spend relative to 2011.

€ million	2012	2011	% Increase/ (decrease)
Ground operations and other costs	126.2	129.1	(2.3%)

2011 ground operations and other costs were adversely impacted by aircraft and crew hire-in costs and additional flight cancellation charges as a result of operational disruption in Q1 2011. In addition, non-recurring project costs, specifically in the area of IT, were incurred in 2011. There is therefore an underlying increase in ground operations and other costs in 2012 which is primarily attributed to an increase in volume related costs and hardware and software licence fees associated with continuing investment to improve our IT infrastructure.

€ million	2012	2011	% Increase/ (decrease)
Other gains/losses	(13.3)	(3.0)	343.3%

Other gains and losses relate primarily to net gains arising on the maturity of US$ and GBP currency contracts which are used to manage FX exposure. Aer Lingus is structurally short US$ in any financial year. This is due to the fact that a significant portion of our cost base is denominated in US$ (including fuel, aircraft hire, certain airport charges and an element of our maintenance costs) while the majority of our revenue is generated in Euro. The extent to which we are short US$ varies from year to year, depending upon the strength of our US$ denominated long haul revenue ticket sales on one hand and the dollar cost of fuel on the other. In 2012, we were short some US$260 million. In addition, we also earn Sterling revenues which exceed the level of costs we incur in that currency. This typically leaves us with an annual Sterling surplus.

We seek to protect ourselves from fluctuations in the US$ and GBP exchange rates through a systematic hedging programme. In 2012, the average US$ rate on our maturing US$ hedging contracts of €1 = US$1.39 compared favourably to the actual average US$ exchange rate in the spot market of 1.29. The average actual hedged rate of surplus GBP sold in 2012 was €1 = £0.84 which compared unfavourably to the average actual Sterling spot rate of 0.82. These differences drove a net gain of €13.3 million in 2012 which provided some offset to the increase in fuel costs described above.

For 2013, and as detailed in the fuel, currency and emissions hedging section below, as at 31 December 2012 we had hedged US$132 million of our total expected 2013 US$ trading requirement at an average rate of €1 = US$1.35. At 31 January 2013, the forward average US$/EUR rate for 2013 was 1.36. Therefore, should the US$ spot rate remain close to this average forward rate for the rest of the year, we are likely to incur a small loss on our US$ hedging in contrast to the significant gain recorded in 2012.

An overview of FX rates for 2012 is as follows:

Foreign currency rate	31 December		Average during year	
	2012	2011	2012	2011
Euro/US$	1.32	1.30	1.29	1.40
Euro/GBP	0.82	0.84	0.82	0.87

Greenfield

In 2012, we achieved new savings under our Greenfield cost reduction programme with an annual value of €19.9 million. When combined with the €84.3 million of annual cost savings already achieved at the start of the financial year, we have now achieved a total annual cost saving of €104.2 million which exceeds our €97 million goal for the three year programme. The savings achieved in 2012 were split as €6.7 million staff savings and €13.2 million non-staff savings. The initiatives undertaken to deliver the 2012 savings achieved included fuel management, overtime reduction, aircraft insurance savings, stock disposals and sourcing and supplier management improvements. Although the formal Greenfield programme has come to an end we continue to pursue cost saving opportunities and initiatives throughout the business.

Net exceptional items

2012 net exceptional costs of €26.5 million compare to a net exceptional gain of €37.2 million recorded in 2011. The 2012 exceptional costs include €17.2 million for restructuring, a large portion of which relates to costs associated with the relocation of A330 hangar maintenance from Shannon to Dublin. As the majority of our A330 fleet is based in Dublin for operational purposes, the relocation of this maintenance activity will provide future efficiencies in maintenance operations for the Group. €3.9 million relates to capital asset value write downs. This includes a €2.2 million impairment in the carrying value of an A320 aircraft which was available for sale for most of 2012 but which now will be deployed on our mainline short haul services in 2013. An amount of €9.9 million was incurred in legal and professional fees associated with the third Ryanair offer for the Group in 2012. We continue to incur costs associated with the European Commission competition investigation into that takeover offer. The costs noted were offset by the release of an impairment provision of €4.8 million.

Finance income and expense

€ million	2012	2011	% Increase/ (decrease)
Finance income	15.3	15.4	(0.6%)
Finance expense	(17.1)	(17.3)	1.2%
Net finance expense	(1.8)	(1.9)	5.3%
Average cash	996.8	929.0	7.3%
Average debt	560.7	560.0	0.1%

The net finance expense for the year of €1.8 million is 5.3% lower than the net finance expense in 2011. Finance income decreased by 0.6% in spite of a 7.3% increase in average cash due to lower average interest rates secured on our deposits in 2012 compared to 2011 (i.e. 1.4% in 2012 compared to 1.6% in 2011). Finance expense decreased by €0.2 million as a result of a decrease in the overall average finance lease rate incurred (2.5% in 2012 compared to 2.6% in 2011). Average debt in 2012 was 0.1% higher than in 2011 in spite of debt repayments made in the year primarily as a result of the US$ strengthening against the euro and the timing of aircraft acquisitions in 2011.

Tax charge

€ million	2012	2011
Total tax charge/(credit)	6.5	13.2
Effective tax rate	16.1%	15.6%
Carried forward tax losses	438.2	424.9

The total tax charge in the current year of €6.5 million is due to a decrease in deferred tax assets owing to profits incurred during the year and movements in provisions against deferred tax assets.

Cash flow, cash and debt

€ million	2012	2011
Gross cash at 31 December	908.5	894.8
Gross debt at 31 December	(531.6)	(577.2)
Net cash	376.9	317.5

Significant cash flow movements in 2012 are as follows:

Movements in gross cash	€'million
Cash from operations (Note 24)	118.5
Net capex	(41.1)
Net interest paid	(2.2)
Net cash flow	**75.2**
Debt repaid	(45.2)
Dividend	(16.0)
Accrued interest	7.7
Investment in Joint Venture	(2.5)
FX	(5.5)
Gross cash at 31 December 2011	894.8
Gross cash at 31 December 2012	908.5

Overall gross cash increased by €13.7 million to €908.5 million (2011: €894.8 million). Free cash inflow in 2012 of €75.2 million represents an €100.1 million improvement in free cash flow compared to 2011. Significant cashflow movements in 2012 included working capital outflows of €22.0 million, net capital expenditure of €41.1 million and a €16.0 million dividend payment in July 2012.

Significant movements in gross debt in 2012 are as follows:

Movements in gross debt	€ million
Gross debt at 31 December 2011	577.2
Interest accrued	5.1
Debt repaid	(45.2)
FX	(5.5)
Gross debt at 31 December 2012	531.6

The Aer Lingus debt maturity profile extends until 2023 with finance lease repayments of approximately €42 million and €118 million due in 2013 and 2014 respectively.

Fuel, currency and emissions hedging

To achieve greater certainty on costs, we manage our exposure to fluctuations in the market prices of fuel and foreign currency through hedging. At 31 December 2012 our estimated fuel requirements for 2013 and 2014 were approximately 448,000 metric tonnes in each year which were hedged as follows:

Fuel hedging	2013	2014
% expected fuel requirement hedged	57.3%	7.1%
Average price per tonne (excluding into-plane costs)	$994	$952

Our main foreign currency exposure is to the US$. At 31 December 2012, our forward purchases of US$ comprised:

US$ currency hedging	2013	2014
Forward purchases of US$ ($ million)	132.0	63.0
Average rate (US$ to EUR)	$1.35	$1.32

At 31 December 2012, we have sold GBP£40.0 million forward for 2013 at an average rate of GBP£0.85. In addition, we have US$235 million hedged against part of the cost of nine new A350 aircraft due for delivery in 2016 to 2019 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 and 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. In November 2012 the European Commission (EC) proposed a one year moratorium on the ETS scheme in respect of flights which were not entirely within the EU in 2012. Aer Lingus is fully compliant with EU ETS for 2012 and has received free allowances equivalent to approximately 80% of its 2012 requirement. The balance of the 2012 requirement (i.e. approx 20%) was purchased for €1.4 million.

Based on the current scheme (assuming no further derogations) and associated free allocation for 2013, we estimate that the ETS cost compliance in 2013 would be circa €2.1 million based on carbon prices of €6.70 per tonne at the reporting date.

Basic and diluted earnings 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 2012, 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 2012 diluted EPS was 157,534 (2011: nil).

Earnings per share	2012	2011
Profit attributable to owners of the parent (€ million)	34.1	71.2
Weighted average number of ordinary shares in issue ('000s)	530,093	529,761
Dilutive effect of options and long term incentive plan ('000s)	158	-
Weighted average number of ordinary shares for dilutive earnings per share '000s)	530,251	529,761
Basic and diluted earnings per share	6.4	13.4

Dividend
On 4 May 2012, we announced a new dividend policy and indicated that the Group intends to pay a dividend for those future years in which we make an operating profit, provided that the payment of a dividend is appropriate and prudent in the context of our financial position, strategic objectives and prospects. We indicated that, subject to these conditions, we expected to pay a dividend of approximately 3 cent per share for 2011, 2012 and 2013.

Aer Lingus Group plc paid its first dividend of 3 cent per share, amounting to approximately €16 million, on 31 July 2012. In response to the strong financial and operating performance of the Group in 2012, the board will recommend the payment of a final dividend for 2012 of 4 cent per share to the AGM. If approved by shareholders at the forthcoming Annual General Meeting, the dividend will be paid as soon as practicable thereafter. The level of any dividend to be paid in respect of 2013 will be evaluated by the board at the end of the year.

Update on capital reduction process
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 our balance sheet.

On 31 July 2012, the Court issued a judgement regarding our application to create these distributable reserves. Objections were made by the trustees of both the Irish Airlines Superannuation Scheme and the Irish Airlines (Pilots') Superannuation Scheme. Since the judgement was issued, a hearing to allow further submissions as to the appropriate order to be made has been adjourned on a number of occasions in order to allow progress to be made in discussions regarding the funding shortfall in the pension schemes. On 5 February 2013, the matter was further adjourned to 26 February 2013 with liberty to re-enter on 48 hours' notice. Aer Lingus' position remains that the Court should grant the capital reduction as sought.

Significant balance sheet movements
The Group's balance sheet remains strong. Gross cash balances have increased by €13.7 million to €908.5 million (2011: €894.8 million). The Group's net cash position increased significantly by €59.3 million to €376.9 million (2011: €317.6 million) and at 31 December 2012, the Group holds net assets of €834.7 million (31/12/2011: €836.7 million), with the movement principally attributable to changes in hedge positions.

During the financial year there were capital additions of €41.1 million (2011: €126.9m), the Group repaid €45.2 million of aircraft related debt and entered into a joint venture arrangement resulting in an equity investment of €10.8 million.

Our market
2012 was characterised by challenging macroeconomic conditions and by weak underlying demand in some of the key markets in which we operate.

In Ireland, our primary market, the economic environment remained difficult in 2012 from a demand perspective. Full year GDP growth is expected to be 0.9% (source: Department of Finance Medium Term Fiscal Statement - November 2012) and the unemployment rate in Ireland remained high in the year at 14.8% (source: CSO). The Irish air travel market is largely dominated by non-business, leisure travellers and therefore continues to be adversely impacted by changes in the level of disposable income available. However, the principal

Irish airports (Dublin, Cork and Shannon), recorded an overall 0.4% increase in passenger numbers in 2012 with Dublin Airport recording an increase of 1.9% in passenger traffic year-on-year (source: anna aero). The economic environment in the UK for 2012, which is another key market for the Group, is forecast to have been weaker than that in Ireland with zero % GDP growth expected for the year (source: HM Treasury, January 2013).

In Europe, policy actions taken by the European Central Bank partially eased concerns about the ability of the European Union to mitigate risks related to sovereign debt default and the future of the euro currency. In spite of these actions, concerns remain with regard to eurozone financial stability, the long term viability of the euro and economic growth across the region as a whole.

Oil prices stabilised in the second half of 2012 following the dramatic increase between 2009 and 2011. As a result of the increase in jet fuel prices and a relative strengthening of the US$ against the Euro in 2012, our fuel bill in 2012 was €26.9 million, or 8.1%, higher than in 2009 in spite of capacity deployment (measured by ASKs) in 2012 being 12.0% below capacity deployed in 2009. Inflationary pressure also manifested itself in airport charges with London Heathrow and Spanish airport authorities in particular significantly increasing passenger taxes and fees in 2012.

The outlook for the Irish and UK economies remains uncertain in 2013, with GDP growth projected to remain in low single digit figures. In Ireland, the impact of austerity measures and tax increases required under the EU/IMF financial assistance programme will continue to constrain personal finances and therefore continue to weaken domestic demand for leisure travel. Similar forces are likely to apply in some of our other key markets in 2013 which may constrain opportunities for yield growth, particularly on short haul services. In December 2012, the International Air Transport Association ("IATA") released an updated financial forecast for 2013 showing that worldwide commercial airlines net profits are expected to increase to US$8.4 billion from US$6.7 billion in 2012. However, IATA expects European airline industry profits to be flat in 2012 and 2013 with the growth in profitability coming from Asia Pacific and North and Latin America regions.

Key performance highlights

An analysis of the key performance priorities we set for 2012 in the prior year, the progress we achieved in 2012 on those targets and our 2013 priorities are as follows:

Continued emphasis on demand led network management

2012 priority: Continue to pursue the disciplined approach of recent years to the ongoing design of the Aer Lingus route portfolio in order to maximise revenue per seat as a key determinant of profitability while recognising that there are unsold seats on much of our flights offering an opportunity to improve profitability by improving load factor.

Progress achieved in 2012 and relevant performance indicators: We maintained our disciplined approach to capacity deployment with overall capacity increasing by just 0.5% compared to 2011. Short haul capacity, as measured by ASKs, decreased by 0.4% whereas long haul capacity increased by 2.3%. Through fleet and network scheduling adjustments and an emphasis on marketing to inbound and transfer passengers on short haul, and with increased demand on long haul, passenger numbers increased year-on-year resulting in a positive performance with respect to RPKs and load factor.

Network performance – Capacity (as measured by ASKs)	**2012**	***Growth vs. prior year %***	**2011**	***Growth vs. prior year %***	**2010**	***Growth vs. prior year %***
Short haul (million)	12,464	*(0.4%)*	12,509	*2.6%*	12,188	*(7.8%)*
Long haul (million)	6,221	*2.3%*	6,084	*0.0%*	6,081	*(24.1%)*
Total network (million)	18,685	*0.5%*	18,593	*1.8%*	18,269	*(13.9%)*

Network performance – Load Factor	**2012**	***Growth vs. prior year pts***	**2011**	***Growth vs. prior year pts***	**2010**	***Growth vs. prior year pts***
Short haul	75.4%	*0.8pts*	74.6%	*(0.3 pts)*	74.9%	*(0.5 pts)*
Long haul	82.5%	*4.9 pts*	77.6%	*(0.8 pts)*	78.4%	*5.3 pts*
Total network	77.7%	*2.1 pts*	75.6%	*(0.5 pts)*	76.1%	*1.6 pts*

As noted earlier, our Irish and UK markets remained relatively weak in 2012 and on this basis, we sought to generate additional passenger traffic by focusing marketing efforts on the inbound segments of routes to Ireland across both long and short haul services. Approximately 47% of bookings are now sourced from outside Ireland and approximately 60% of long haul bookings are now made from the U.S. These trends have served to protect our traffic, yields and load factor and helped to increase profitability.

2013 priority: 2013 short haul capacity deployment on our mainline operations is expected to be lower than 2012 as a result of the introduction of two further A319 aircraft to replace two A320 aircraft. However, long haul capacity will increase by approximately 11% in order to serve increased demand in the transatlantic market which performed strongly in 2012. We intend to add additional frequencies to the Boston and Chicago services in Summer 2013 and will deploy the long haul A330 aircraft which is returning to the mainline Aer Lingus long haul fleet following its previous deployment on the enhanced codeshare agreement with United Airlines.

Optimising fare revenue per seat

2012 priority: Continue to increase average fare revenue per seat as a cornerstone of our commercial strategy while acknowledging both the uncertain consumer markets in which we operate and that our principal competitor is Europe's largest low cost / low fares airline.

Progress achieved in 2012 and relevant performance indicators: Total average fare revenue per seat for 2012 was €88.70 which is 7.8% higher than 2011 and 12.8% higher than 2010. Our ability to increase both components of fare revenue per seat (i.e. average passenger yield and load factor) has been a critical factor in mitigating inflationary pressure on non-controllable costs such as fuel and airport charges and therefore to protect and grow profitability.

Fare revenue per seat (€)	**2012**	***Growth vs. prior year %***	**2011**	***Growth vs. prior year %***	**2010**	***Growth vs. prior year %***
Short haul	68.67	*3.9%*	66.09	*5.5%*	62.63	*9.9%*
Long haul	289.12	*16.6%*	248.03	*4.0%*	238.61	*27.4%*
Total network	88.70	*7.8%*	82.31	*4.7%*	78.62	*11.4%*

2013 priority: We expect that the current soft demand conditions noted earlier will continue to apply, particularly on short haul. Nonetheless, we continue to focus on growth in revenue per seat as a fundamental driver of our commercial strategy. We intend to pursue this growth through a combination of measures including:

- Continuation of the existing pricing, distribution and marketing strategies designed to stimulate inbound traffic on transatlantic services and also business traffic from core European destinations (e.g. Benelux countries, Germany, etc.).

- Continue to optimise revenue per seat by remaining competitive for leisure passengers through active pricing and promotion; more active yield premium management from closer in bookings and business travellers and increased "*Flex*" fare family penetration across our short haul network. We will exploit the opportunity afforded by unsold seats to improve load factor where we can.

Following three years of increases in passenger yields, our ability to increase yields, particularly on short services, will be limited in 2013 primarily as a result of weak economic conditions in our key Irish and UK markets and also due to expected increases in airport taxes and charges on ticket prices for customers. These increased charges will feed through in higher travel costs for passengers and therefore we recognise that our ability to grow that portion of the ticket price that we retain in the face of this inflationary pressure on travel costs may be limited.

Continued growth in retail revenue in 2012

2012 target: During the year, we sought to further drive retail revenue per passenger with the focus on improving our offer in order to provide passengers with the customised additional features they would like at affordable prices.

Progress achieved in 2012 and relevant performance indicators: Following a significant refresh of the retail revenue offering in 2011, we continued to develop this category of revenue and enjoyed the full year benefits of actions taken in the prior year. Fare family revenues, advanced seat selection fees and the *Sky Deli* brand of onboard catering have all positively contributed to retail revenue growth in 2012 and has allowed us to continue the positive trend in retail revenue per passenger growth for a third successive year:

€	2012	*Growth vs. prior year %*	2011	*Growth vs. prior year %*	2010	*Growth vs. prior year %*
Retail revenue per passenger	18.28	*3.1%*	17.73	*0.3%*	17.67	*5.5%*

2013 priority: We have a number of additional retail revenue opportunities in our product pipeline. These include the roll out of inflight wi-fi connectivity services across the long and short haul fleets. Inflight catering opportunities will also contribute to retail revenue performance in 2013 with the launch of pre-order meals on short haul services in December 2012 and the launch of an upgraded meal offering for long haul passengers in February 2013. We are also exploring the development of significantly upgraded reward and affinity card programmes to drive increased customer engagement and incremental retail revenue.

Effective fleet management

2012 priority: Continue to maintain an appropriate fleet composition in order to serve the Group's markets cost effectively and flexibly. This involves maintaining a balanced approach to both (i) the mix of aircraft type in order to ensure that the appropriate level of capacity is available to match underlying demand and (ii) the mix of owned and operating leased fleet in order to have the ability to expand or reduce the fleet in response to the evolving demand environment.

Progress achieved in 2012 and relevant performance indicators: Our young fleet age continues to help us drive our competitive unit cost position. At 31 December 2012, the average age of the Aer Lingus fleet was 7.1 years.

We introduced two leased A319 aircraft into the fleet in early 2012 to replace operating leased A320 aircraft exiting the fleet. The economics associated with the A319 aircraft type are appropriate for some of the lower demand routes within our network and should drive further operating and cost efficiencies. The specific movements in the mainline Aer Lingus fleet during 2012 are as follows:

Description	**No. of aircraft**
Total mainline fleet at 31 December 2011	43
A319 aircraft acquired on operating lease	2
A320 aircraft returned to lessor	(2)
A330 aircraft returning from enhanced codeshare with United	1
Total mainline fleet at 31 December 2012	44

An analysis of our aircraft fleet at 31 December 2012 is:

Aircraft type	**A319**	**A320**	**A321**	**A330-200**	**A330-300**	**Total**
No. of aircraft	2	32	3	3	4	44

Of the total fleet of 44 aircraft, 26 aircraft are either owned or financed leased with the remaining 18 aircraft on operating leases.

2013 target: An A320 aircraft which we previously carried on our balance sheet as "held for sale" will be deployed in our mainline short haul services in 2013 to offset the redeployment of one our current A320 short haul fleet aircraft for the Virgin 'wet lease' operation. Two leased A319s will join the fleet in 2013 to replace two A320 aircraft in our mainline short haul services, one of which will return to lessor and a second that will serve the needs of the 'wet lease' with Virgin Atlantic. In total, we will require four A320 aircraft for the Virgin Atlantic 'wet lease' operations. As noted, two A320 aircraft will be redeployed from our mainline short haul fleet and a further two A320 aircraft will be secured on medium term operating leases.

For 2013, in order to serve underlying market demand, an additional A330 will be deployed in the Summer 2013 schedule. The Group had an A330 aircraft return to the fleet in 2012 following the conclusion of the enhanced codeshare with United Airlines for the operation of the Washington Dulles – Madrid service. The additional capacity will service existing routes. No other changes are expected in long haul capacity. We have orders in place for Airbus A350 aircraft for our long haul network but do not expect to take delivery before 2016. We will, however, likely begin to incur pre-delivery payments (PDPs) from 2015. As a result of the above, we do not anticipate short term capital expenditure for new aircraft.

The fleet movements planned for 2013 are as follows:

Description	**No. of aircraft**
Total fleet at 31 December 2012	44
A319 aircraft to be acquired on operating lease	2
A320 aircraft to be acquired on operating lease	2
A320 aircraft to exit fleet	(1)
Total fleet at 31 December 2013	47

Ongoing focus on cost management and operational efficiencies
2012 priority: We are fully aware of the extremely competitive environment in which we operate, particularly as we compete with one of Europe's low cost leaders on the majority of short haul routes ex-Ireland. For this reason, we have continued our sustained focus on achieving cost and operational efficiencies across the organisation. In 2012, we experienced significant price inflation in relatively non-controllable costs such as fuel (24.2%) and airport charges (7.1%). Against this backdrop, we continued to focus attention on reducing, and where possible, eliminating controllable costs from the business.

Progress achieved in 2012 and relevant performance indicators: We completed our three year "*Greenfield*" cost reduction programme in 2012. The original goal for this programme was to achieve operational cost savings with an annual value of €97 million across both staff and non-staff cost categories. At the end of 2012, we have exceeded this target with total annual cost savings achieved of €104.2 million.

€ million	**Annual value of savings achieved in year during 2012**	**Total savings as at December 2011**	**Total annual value of Greenfield savings achieved**
Staff	6.7	55.7	62.4
Non-staff	13.2	28.6	41.8
Total	**19.9**	**84.3**	**104.2**

Unit cost per ASK is a key performance metric used by us to track the cost competitiveness of the Group both over time and against other carriers. Year-on-year progression in unit cost per ASK is set out below:

Cent	**2012**	**2011**	**2010**
Operating cost per ASK	7.09	6.66	6.37
% increase/(decrease) versus prior year	*6.5%*	*4.6%*	*5.1%*
Operating cost per ASK (excl. Fuel, airport charges, other gains/losses)	3.66	3.65	3.67
% increase/(decrease) versus prior year	*0.3%*	*(0.5%)*	*7.0%*

On a total basis, operating costs per ASK increased by 6.5% from 2011 to 2012. However, as a result of the efficiencies gained through cost restructuring, cost saving, staff cost control and procurement initiatives, operating costs per ASK that are more directly under our control (i.e. excluding fuel, airport charges and other gains and losses) remained relatively flat year on year.

2013 priority: Notwithstanding the success of the *Greenfield* programme, we are acutely aware of the need for ongoing cost reduction and control to ensure that the competitiveness and profitability of Aer Lingus is maintained. In 2013, we will not be implementing a formal cost saving programme to replace Greenfield, but rather we will continue to pursue cost savings and cost elimination across the business through a range of targeted and coordinated staff and non-staff initiatives.

Quarter by quarter review of 2012

Q1 2012
Trading in the first quarter of 2012 was significantly ahead of the 2011 comparative period owing to the impact of industrial action in Q1 2011 which disrupted operations and was estimated to have cost the Group approximately €15 million in lost revenue and additional costs. Total revenue increased by 15.4% with overall passenger yield increasing by 8.4% and passenger numbers up 6.6%. Long haul performance was particularly strong with long haul revenue up 24.6% and long haul yield up 11.2%. Retail revenue per passenger was 8.5% ahead of prior year. Total load factor increased by 2.1 points. Losses were €36.1 million compared with €53.7 million in Q1 2011.

Q2 2012
In Q2 2012, the robust trading performance of the Group continued. Average yield per passenger increased by 5.3% over prior year period with long haul yields increasing by 7.8%. Capacity was 0.4% lower but load factor was 3.1 points higher than Q2 2011 reflecting the success of our strategy of carefully matching capacity deployment with underlying demand. Passenger numbers in Q2 2012 increased by 1.2%. The impact of these favourable variances saw total revenue increase by 6.7% over prior year period.

Increasing fuel prices and unfavourable movements in the EUR/US$ exchange rate were reflected in Q2 2012 with fuel cost increasing by 28.3% compared to 2011. In addition, airport charges also increased by 8.3%, mainly as a result of price increases at London Heathrow leading to total operating costs 5.8% higher. However the positive revenue performance more than compensated for the increased operating costs and overall operating profit, before net exceptional items, increased by 17.8% to €31.7 million. At the half year, we recorded an operating loss, before net exceptional items, of €4.4 million compared with €26.8 million for the 2011 period.

Q3 2012
We continued to trade strongly over the key summer months. The year to date momentum in yield and load factor performance continued with long haul recording a particularly positive performance. In Q3 2012, total passenger yield was 7.2% ahead of 2011 with long haul 11.5% ahead. Load factor achieved was 86.1%, 1.7 points higher than Q3 2011 with capacity decreasing by 0.6%. Total revenue increased by 5.7% to €460.8 million. In Q3 2012, significantly weaker demand was noted on core routes to London during the Olympic Games which adversely impacted performance. Inflationary pressure on costs continued in Q3 2012 however, with fuel 27.7% higher and airport charges 8.1% higher following price increases noted at Spanish airports and London Heathrow. Overall, in spite of the significant cost inflation and the negative impact of the London Olympic Games, operating profit of €90.9 million was only 2.9% below the 2011 comparative, leaving us with a year to date operating profit at the end of the quarter of €86.5 million, 29.7% ahead of 2011.

Q4 2012
In Q4 2012, we recorded an operating loss, before net exceptional items, of €17.4 million (2011: loss of €17.6 million). Revenue increased by 8.0% which offset the total increase of 7.5% in operating costs, mainly driven by inflation in non controllable costs such as fuel and airport charges, resulting in an operating loss for the quarter that was 1.1% below prior year.

Passenger fare revenue increased by 9.2% compared to Q4 2011 driven by a 0.5% increase in passenger numbers and an 8.6% increase in yield per passenger. Overall capacity in Q4 2012 was 0.8% lower than prior year.

Short haul passenger revenue increased by 3.9% to €171.6 million (2011: €165.2 million). Short haul passenger volumes decreased by 0.8% however average yield per short haul passenger increased by 4.7%. Short haul capacity was 2.1% lower than prior year reflecting changes in the short haul Winter schedule and also changes in the short haul fleet during 2012. Short haul load factor in Q4 2012 decreased by 1.4 points versus Q4 2011.

Long haul passenger revenue increased by 22.4% to €82.6 million (2011: €67.5 million). The strong performance on long haul in the quarter was a result of a 12.2% increase in passenger numbers combined with an 8.9% increase in average yield per long haul passenger. Long haul capacity increased by 1.6% compared to prior year and load factor increased by 7.7 points year on year.

Retail revenue per passenger increased by 3.5% in Q4 2012 to €17.56 as a result of an excellent performance on the Group's refreshed retail offerings including advanced seat selection and the *'Sky deli'* on board menu. Overall retail revenue increased by 4.0% to €38.7 million in the quarter (2011: €37.2 million).

Operating costs in Q4 2012 were 7.5% up on Q4 2011 due to a combination of factors but principally fuel and airport charges. Total fuel cost increased by 11.1% year on year to €83.8 million (2011: €75.4 million). The average fuel price paid per tonne (excluding into-plane costs) in Q4 2012 was US$1,002 compared to US$952 in Q4 2011.

Airport charges increased by 3.9% to €66.6 million (2011: €64.1 million) as a result of significant increases in charges levied by particular airport authorities in 2012 (notably London Heathrow and Spanish airports). Other costs increased by 7.3% driven largely by overheads, maintenance and reduced gains on FX currency hedging.

Consolidated income statement (unaudited)

Year ended 31 December

	Note	2012	2011
		€'000	€'000
Revenue	2	**1,393,284**	1,288,309
Operating expenses (before net exceptional items)			
Staff costs		**266,764**	260,550
Depreciation and amortisation		**76,079**	79,808
Aircraft operating lease costs		**46,137**	43,909
Fuel and oil costs		**358,560**	288,728
Maintenance expenses		**60,096**	58,104
Airport charges		**295,336**	275,631
En-route charges		**61,391**	59,668
Distribution charges		**46,957**	46,728
Ground operations, catering and other operating costs		**126,240**	129,102
Other (gains)/losses - net	3	**(13,330)**	(3,028)
		1,324,230	1,239,200
Operating profit before net exceptional items		**69,054**	49,109
Net exceptional items	4	**(26,466)**	37,161
Operating profit after net exceptional items		**42,588**	86,270
Finance income	5	**15,303**	15,422
Finance expense	5	**(17,131)**	(17,330)
		(1,828)	(1,908)
Share of loss of Joint Venture	10	**(190)**	-
Profit before tax		**40,570**	84,362
Income tax charge	6	**(6,543)**	(13,168)
Profit for the year		**34,027**	71,194
Profit attributable to:			
- owners of the parent		**34,027**	71,194
Profit per share for profit attributable to the owners of the parent (expressed in cent per share)			
- basic and diluted	7	**6.4**	13.4

Consolidated statement of comprehensive income (unaudited)

Year ended 31 December

	Note	**2012**	2011
		€'000	€'000
Profit for the year		**34,027**	71,194
Other comprehensive income			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve		**(147)**	(134)
- Deferred tax on amortisation of available-for-sale reserve		**18**	17
Cash flow hedges			
- Fair value (losses)/gains		**(5,836)**	8,794
- Deferred tax impact		**729**	(1,099)
- Transfer to fuel costs		**(2,462)**	(13,625)
- Deferred tax impact		**308**	1,703
- Transfer to Income Statement (net exceptional items)	4	**-**	(11,595)
- Deferred tax impact		**-**	1,449
- Transfer to property, plant and equipment		**-**	(4,772)
- Deferred tax impact		**-**	597
- Transfer to other gains/losses - net		**(12,973)**	(18,425)
- Deferred tax impact		**1,622**	2,303
Post employment benefit obligations			
- Actuarial loss on defined benefit arrangements		**(4,243)**	(4,893)
Total comprehensive profit for the year		**11,043**	31,514
Total comprehensive profit attributable to:			
- owners of the parent		**11,043**	31,514

Consolidated statement of financial position (unaudited)

As at 31 December

	Note	**2012**	2011
		€'000	€'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**741,087**	770,944
Intangible assets	9	**12,447**	12,643
Investment in Joint Ventures	10	**10,764**	-
Loans and receivables	14	**43,373**	42,180
Derivative financial instruments	12	**1,007**	2,084
Trade and other receivables	13	**15,858**	16,680
Deferred tax asset	21	**1,330**	4,929
Deposits	14	**119,716**	128,516
		945,582	977,976
Non-current assets held for sale	11	**-**	9,792
Current assets			
Inventories		**2,235**	1,493
Derivative financial instruments	12	**4,539**	34,845
Trade and other receivables	13	**83,929**	79,319
Current income tax receivables		**3**	16
Deposits	14	**432,504**	459,561
Cash and cash equivalents	14	**312,939**	264,495
		836,149	839,729
Total assets		**1,781,731**	1,827,497
EQUITY			
Called-up share capital	22	**26,702**	26,702
Share premium	23	**510,605**	510,605
Capital conversion reserve fund		**5,048**	5,048
Capital redemption reserve fund		**343,796**	343,796
Other reserves		**7,583**	23,359
Retained earnings		**(59,023)**	(72,789)
Total equity		**834,711**	836,721
LIABILITIES			
Non-current liabilities			
Finance lease obligations	16	**489,608**	536,971
Derivative financial instruments	12	**846**	733
Post employment benefit obligations	18	**34,858**	28,982
Provisions for other liabilities and charges	19	**55,138**	47,826
		580,450	614,512
Current liabilities			
Trade and other payables	15	**283,639**	293,453
Finance lease obligations	16	**41,979**	40,266
Derivative financial instruments	12	**11,220**	8,867
Provisions for other liabilities and charges	19	**29,732**	33,678
		366,570	376,264
Total liabilities		**947,020**	990,776
Total equity and liabilities		**1,781,731**	1,827,497

Consolidated statement of changes in equity (unaudited)

All movements are attributable to the owners of the parent.

	Called-up share capital €'000	Share premium €'000	Capital conversion reserve fund €'000	Capital redemption reserve fund €'000	Cash flow hedging reserve €'000	Available-for-sale reserve €'000	Treasury shares €'000	Share based payment reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2011	26,702	510,605	5,048	343,796	60,351	510	(6,326)	812	(139,090)	802,408
Profit for the year	-	-	-	-	-	-	-	-	71,194	71,194
Other comprehensive loss for the year ended 31 December 2011	-	-	-	-	(34,670)	(117)	-	-	(4,893)	(39,680)
Total comprehensive income/(loss) for the year	-	-	-	-	(34,670)	(117)	-	-	66,301	31,514
Exercise of LTIP awards	-	-	-	-	-	-	711	(711)	-	-
Share based payment reserve	-	-	-	-	-	-	-	3,199	-	3,199
Deferred tax impact	-	-	-	-	-	-	-	(400)	-	(400)
Balance at 31 December 2011	26,702	510,605	5,048	343,796	25,681	393	(5,615)	2,900	(72,789)	836,721
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	-	-	-	-	-	-	-	-	34,027	34,027
Other comprehensive loss for the year ended 31 December 2012	-	-	-	-	(18,612)	(129)	-	-	(4,243)	(22,984)
Total comprehensive income/(loss) for the year	-	-	-	-	(18,612)	(129)	-	-	29,784	11,043
Dividends Paid	-	-	-	-	-	-	-	-	(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

Consolidated statement of cash flows (unaudited)

Year ended 31 December

	Note	**2012**	2011
		€'000	€'000
Cash flows from operating activities	24	**118,508**	87,618
Income tax paid		**(37)**	-
Net cash generated from operations		**118,471**	87,618
Cash flows from investing activities			
Purchases of non-current assets (net of lease finance raised)		**(41,132)**	(31,531)
Investment in Joint Venture		**(2,514)**	-
Proceeds from sales of property, plant and equipment		**50**	11,400
Decrease/(increase) in deposits		**39,089**	(32,415)
Interest received		**7,471**	6,473
Net cash generated/(used) from investing activities		**2,964**	(46,073)
Cash flows from financing activities			
Repayments of finance lease obligations		**(45,196)**	(61,967)
Interest paid		**(9,692)**	(10,299)
Dividends paid		**(16,018)**	-
Net cash used in financing activities		**(70,906)**	(72,266)
Net increase/(decrease) in cash and cash equivalents		**50,529**	(30,721)
Cash, cash equivalents at 1 January		**264,495**	296,011
Exchange losses on cash and cash equivalents		**(2,085)**	(795)
Cash, cash equivalents at 31 December	14	**312,939**	264,495

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 2012 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Acts 1963 – 2012 applicable to companies reporting under IFRS. The financial information set out in this document does not constitute the full statutory consolidated financial statements for the year ended 31 December 2012 and is unaudited. The financial information for the years ended 31 December 2012 and 31 December 2011 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 with the addition of the policy related to investments in Joint Ventures. The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The financial information set out in this preliminary announcement does not constitute the statutory consolidated financial statements of the Group, a copy of which is required to be annexed to the annual return to the Companies Registration Office in Ireland. A copy of the statutory consolidated financial statements required to be annexed to the annual return in respect of the year ended 31 December 2011 has been so annexed. A copy of the statutory consolidated financial statements in respect of the year ended 31 December 2012 will be annexed to the Group's annual return for 2012. The Directors expect to approve the consolidated financial statements for the year ended 31 December 2012 in March 2013. The independent auditors' report on the full statutory consolidated financial statements for the year ended 31 December 2012 has yet to be completed.

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

(a) Provisions
The Group makes provisions for legal and constructive obligations, which it knows to be outstanding at the year-end date. These provisions are generally made based on historical or other pertinent information, adjusted for recent trends where relevant. However, they are estimates of the financial costs of events that may not occur for some years. As a result of this and the level of uncertainty attaching to the final outcomes, the actual outturn may differ significantly from that 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*, 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 19 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 17 for further detail.

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

(d) Recoverability of deferred tax assets
The Group recognised 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 judgment. 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 judgment and estimates. Their fair values have been estimated using the 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 judgment in selecting a variety of methods and makes assumptions that are mainly based on observable market data and conditions existing at each reporting date. Further judgment is exercised by management in considering the probability of occurrence for underlying hedge transactions, in particular the likelihood and timing of future aircraft purchases.

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

Foreign currency translation

(a) Functional and presentation currency
The financial information is presented in Euro, which is the functional and presentation currency of the Company and all of its trading subsidiaries.

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

Exchange rates prevailing at the year end date and average exchange rates during the year are set out below:

Foreign currency rate	**31 December**		**Average during year**	
	2012	**2011**	**2012**	**2011**
Euro/US$	1.32	1.30	1.29	1.40
Euro/GBP	0.82	0.84	0.82	0.87

Significant accounting policies
The accounting policies adopted in the preparation of the consolidated financial information are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2011, with the addition of the policy below related to our investment in the Joint Venture.

Investments in joint ventures
Investments in joint ventures are accounted for in accordance with the equity method of accounting, as set out in IAS 31 *Interests in Joint Ventures*.

Notes to the financial information

1 Segment information

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

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

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

Segment revenue of €1,393.3 million (2011: €1,288.3 million) is wholly derived from external customers.

	2012	2011
	€'000	€'000
Adjusted operating profit before net exceptional items, interest and tax for the reportable segment	**65,842**	44,852
Miscellaneous group level adjustments	**3,212**	4,257
Net exceptional items	**(26,466)**	37,161
Operating profit after net exceptional items	**42,588**	86,270
Finance income	**15,303**	15,422
Finance expense	**(17,131)**	(17,330)
Share of losses of joint venture	**(190)**	-
Profit before tax	**40,570**	84,362

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

	2012	2011
	€'000	€'000
Total segment assets	**871,869**	927,816
Deferred tax asset	**1,330**	4,929
Loans and receivables	**43,373**	42,180
Deposits	**552,220**	588,077
Cash and cash equivalents	**312,939**	264,495
Total assets per statement of financial position	**1,781,731**	1,827,497

2 Revenue

	2012	2011
	€'000	€'000
Passenger revenue	**1,159,853**	1,067,993
Ancillary revenue	**176,466**	168,651
Cargo revenue	**45,670**	43,069
Other revenue	**11,295**	8,596
	1,393,284	1,288,309

3 Other (gains)/losses - net

	2012	2011
	€'000	€'000
Fair value losses on cross-currency interest rate swap	**-**	839
Realised gains on forward foreign currency contracts	**(11,888)**	(2,359)
Net foreign exchange gains on operating activities	**(1,442)**	(1,508)
	(13,330)	(3,028)

4 Net exceptional items

Exceptional (losses)/gains comprise:

	2012	2011
	€'000	€'000
Northern European airspace closure costs (a)	**-**	39
Impairments of Non Current Assets (b)	**(3,952)**	(2,213)
ESOT profit share obligation (c)	**20**	(177)
Restructuring (d)	**(17,191)**	3,146
Statutory redundancy government refund (e)	**-**	90
Leave and return settlement (f)	**-**	(802)
Gain on surrender of head office site lease agreement (g)	**-**	21,016
Reclassification of cash flow hedging reserve (h)	**-**	11,595
Gain on revision of frequent flyer programme terms and conditions (i)	**-**	4,467
Takeover defence costs (j)	**(9,797)**	-
Reduction in impairment provision (k)	**4,830**	-
Other (l)	**(376)**	-
	(26,466)	37,161

(a) Re-measurement of the provision in respect of estimated cost of compensating passengers for costs incurred as a result of the closure of northern European airspace following the eruption of a Volcano in Eyjafjallajoekull, Iceland.

(b) The 2012 charge comprises impairment on an owned A320 aircraft which had been held for sale but in December 2012 was brought back into the fleet (€2.2 million) and the impairment of other assets no longer expected to be utilised (€1.8 million). The 2011 charge is the net of a profit of €1.0 million on the disposal of an owned A330 aircraft and a charge of €3.2 million, being the write down of an aircraft to the lower of Net Book Value and Fair Value less costs to sell.

(c) Re-measurement of a provision to fully extinguish the Group's obligations to pay any further share of profits to the Aer Lingus Employee Share Ownership Trust ("ESOT"). The 2012 charge relates to the finalisation of the payment to ESOT.

(d) Recognition 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 relates to additional provisions for restructuring costs associated with the ongoing Greenfield cost reduction programme (€4.1 million) and Migration/Outsourcing Schemes (€3.2 million).

(e) Statutory redundancy refunds relating to redundancies effected under the Greenfield cost reduction programme.

(f) The 2011 amount relates to fees and costs in respect of the 2010 settlement of tax obligations associated with 2008/2009 "leave and return" programme.

(g) On 8 November 2011, the Group signed and completed a formal contract with Dublin Airport Authority plc ("DAA") for the surrender of Aer Lingus' leasehold interest in its Head Office Building site (the "HOB site") to DAA. This was pursuant to the Group's announcement of 25 June 2010 that it had signed a Heads of Agreement with DAA in relation to the transaction.

The HOB site comprises 9.9 acres located at Dublin Airport, Co Dublin. It includes the head office building, car parking spaces and other office and training spaces utilised by the Group. Following completion of the surrender, most Aer Lingus employees based in HOB have re-located to office space in Hangar 6 and the remainder will move to another DAA property in Dublin Airport during 2013.

The value of the consideration payable by DAA to Aer Lingus for the surrender is €22.2 million, plus interest payments. The consideration is non-cash in nature and comprises €11.8 million of rental prepayments and €10.4 million of branding prepayments and licences to occupy certain property owned by DAA.

The gain recognised is recorded net of a cash payment of €1.0 million to DAA on completion of the transaction, being full and final settlement of any obligation which the Group may have to DAA in respect of the condition of the HOB site and miscellaneous professional fees.

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

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

(i) Gain arising from the revision of terms and conditions of membership of the Group's frequent flyer programme.

(j) Bid defence costs associated with a takeover bid from the Group's largest shareholder, Ryanair Holdings plc. The offer period under the Takeover Rules (Republic of Ireland) commenced on 19 June 2012. Further costs will be incurred in 2013 depending on the course and duration of the bid.

(k) 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 is not considered to be probable and the impairment provision is no longer required. The credit has been treated as an exceptional credit due to the size and unusual nature of the item.

(l) Other costs relate to professional fees incurred in relation to an ongoing review of the Group’s pension schemes and other miscellaneous project costs.

5 Finance income and expense

	2012	2011
	€’000	€’000
Finance income		
Interest on cash, cash equivalents and deposits	**11,023**	13,022
Interest income on loans and receivables	**1,879**	1,656
Amortisation of available-for-sale reserve	**147**	134
Finance income on post employment benefit assets	**642**	587
Unwinding of discounting on non-current prepayments	**1,612**	23
	15,303	15,422

	2012	2011
Finance expense		
Interest expense on finance lease obligations	**15,080**	15,781
Unwinding of discounting on provisions	**511**	-
Interest expense on post employment benefit obligations	**1,538**	1,549
Miscellaneous	**2**	-
	17,131	17,330

6 Income tax

Income tax charge recognised in the income statement

	2012	2011
	€'000	€'000
Current taxation		
Withholding taxes deducted at source	**18**	-
Foreign taxes paid	**19**	-
	37	-
Deferred tax		
Origination and reversal of timing differences	**6,506**	7,206
Movement in provisions against deferred tax asset	**-**	5,962
	6,506	13,168
Total income tax charge	**6,543**	13,168

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 2012, 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 2012 diluted EPS was 157,534 (2011: nil).

	2012	2011
Profit attributable to owners of the parent (€'000s)	**34,027**	71,194
Weighted average number of ordinary shares in issue (000s)	**530,093**	529,761
Basic and diluted profit per share (cent per share)	**6.4**	13.4

	2012	2011
Weighted average number of ordinary shares in issue (000s)	**530,093**	529,761
Dilutive effect of options and long term incentive plan (000s)	**158**	-
Weighted average number of ordinary shares for dilutive earnings per share (000s)	**530,251**	529,761

8 Property, plant and equipment

	Flight equipment	Property	Ground equipment	Other equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
1 January 2011	1,156,993	41,780	49,596	24,275	1,272,644
Additions	101,746	7,551	735	5,812	115,844
Disposals	(49,348)	(18,457)	(1,829)	(5,268)	(74,902)
Reclassified to non-current assets held for sale	(23,906)	-	-	-	(23,906)
31 December 2011	1,185,485	30,874	48,502	24,819	1,289,680
Accumulated depreciation					
1 January 2011	417,587	36,911	36,663	21,127	512,288
Depreciation charge for the year	74,120	2,296	4,019	1,478	81,913
Impairment charge for the year[1]	3,165	-	-	-	3,165
Disposals	(38,938)	(18,457)	(1,827)	(5,294)	(64,516)
Reclassified to non-current assets held for sale	(14,114)	-	-	-	(14,114)
31 December 2011	441,820	20,750	38,855	17,311	518,736
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	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 year	68,693	2,498	3,330	2,113	76,634
Reinstate asset	15,459	-	-	-	15,459
Disposals	(32,680)	(492)	(748)	(44)	(33,964)
31 December 2012	493,292	22,756	41,437	19,380	576,865
Net book value					
31 December 2012	**710,914**	**13,618**	**9,539**	**7,016**	**741,087**
31 December 2011	743,665	10,124	9,647	7,508	770,944
Leased assets included above (net book value)					
31 December 2012	**502,170**	**-**	**-**	**-**	**502,170**
31 December 2011	601,278	-	-	-	601,278

[1] The impairment charge of €3.2 million recorded during 2011 relates to the write down of one owned A320 aircraft held for sale to its fair value less costs of sale. This write down has been recorded within net exceptional items. Additional impairment totalling €2.2 million was recorded during 2012, while the asset was held for sale. This charge has also been recorded within net exceptional items. See Note 4 for further information.

9 Intangible assets

	Computer Software	License	Total
	€'000	€'000	€'000
Cost			
At 1 January 2011	51,088	-	51,088
Additions	8,189	3,000	11,189
Disposals	(589)	-	(589)
At 31 December 2011	58,688	3,000	61,688
Aggregate amortisation			
At 1 January 2011	46,700	-	46,700
Charge for the year	2,934	-	2,934
Disposals	(589)	-	(589)
At 31 December 2011	49,045	-	49,045
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
Impairment	1,777	-	1,777
Disposals	(1,777)	-	(1,777)
At 31 December 2012	51,531	333	51,864
Net book value			
31 December 2012	9,780	2,667	12,447
31 December 2011	9,643	3,000	12,643

License reflects licenses to occupy certain DAA plc owned property acquired as part of the surrender of the Group's leasehold interest in the HOB site. Further description of this transaction is contained in Note 4 "net exceptional items".
The impairment charge of €1.8 million relates to the impairment of computer software no longer expected to be utilised. See Note 4 for further details.

10 Investment in Joint Venture

	2012	2011
	€'000	€'000
At 1 January	**-**	-
Investment during year	**10,954**	-
Share of Loss [1]	**(190)**	-
At 31 December	**10,764**	-

The Group acquired a 33.33% equity interest in the share capital of a leasing company (the "Joint Venture"), the parent company of an aircraft leasing group. The Group will acquire eight ATR 72-600 series aircraft and lease them to Aer Arann during 2013 and 2014. Aer Lingus subscribed for the issue of 10,000 partly paid shares in the Joint Venture for an amount of US$14.2 million and paid US$3.1 million in 2012 and has recognised a liability for its obligation to pay the balance of the

uncalled capital amounting to US$11.1 million over a two year period. The US$11.1 million commitment has been hedged for €8.4 million. It is intended that Aer Lingus will subscribe for up to US$3.5 million of new equity in 2013 in the event that the Joint Venture acquires a further two aircraft.

The Group's share of the results of its Joint Venture and its aggregate assets (including Goodwill) and liabilities are as follows:

Name	**Country of incorporation**	**Assets**	**Liabilities**	**Revenue**	**Loss [1]**	**% Interest held**
€'000						
31 December 2012						
- Joint Venture	Cayman Islands	10,821	211	0	(190)	33.3
		10,821	**211**	**0**	**(190)**	**33.3**

[1] Share of loss is after tax

As at December 2012, the fair value of the Group's interest in the Joint Venture was €10.8 million and the carrying amount of the Group's interest was €10.8 million. The Group considers the fair value and carrying value of the investment to be equal at 31 December 2012.

11 Non-current assets held for sale

The non-current asset held for sale at 31 December 2011 comprised an owned A320 aircraft, which had been reclassified as held for sale due to surplus short haul fleet capacity.

In December 2012, management reached a decision to reintroduce this aircraft to the operating fleet due to operational requirements.

The aircraft has been reclassified to property, plant and equipment at the lower of its carrying value prior to its classification as held-for-sale as adjusted for depreciation that would have been charged had the aircraft not been classified as held for sale and its recoverable amount at the date of the decision not to sell in December 2012.

12 Derivative financial instruments

	2012		2011	
	€'000	**€'000**	€'000	€'000
	Assets	**Liabilities**	Assets	Liabilities
Cross-currency interest rate swap	**-**	**595**	-	-
Forward foreign exchange contracts	**1,711**	**7,399**	27,597	2,230
Forward fuel price contracts	**3,835**	**4,072**	9,332	7,370
Total	**5,546**	**12,066**	36,929	9,600
Less non-current portion:				
Cross-currency interest rate swap	**-**	**595**	-	-
Forward foreign exchange contracts	**20**	**107**	1,837	178
Forward fuel price contracts	**987**	**144**	247	555
Total non-current portion	**1,007**	**846**	2,084	733
Current portion	**4,539**	**11,220**	34,845	8,867

13 Trade and other receivables

	2012	2011
	€'000	€'000
Trade and other receivables	**42,273**	29,138
Other amounts receivable	**35,618**	37,740
Prepayments and accrued income	**20,355**	25,232
Value Added Tax	**1,541**	3,889
	99,787	95,999

Shown as:

Non-current assets	**15,858**	16,680
Current assets	**83,929**	79,319
	99,787	95,999

14 Gross cash, cash and cash equivalents

	2012	2011
	€'000	€'000
Non-current		
Loans and receivables	**43,373**	42,180
Deposits	**119,716**	128,516
	163,089	170,696
Current		
Deposits	**432,504**	459,561
Cash and cash equivalents	**312,939**	264,495
	745,443	724,056
Total gross cash	**908,532**	894,752

At 31 December 2012 the Group held deposits of €21.1 million (31 December 2011: €26.2 million), which were not available for immediate use by the Group.

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

	As at 31 December 2012	As at 31 December 2011
	€'000	€'000
Cash and cash equivalents	**312,939**	264,495
	312,939	264,495

15 Trade and other payables

	2012	2011
	€'000	€'000
Trade payables	**53,716**	60,514
Accruals and deferred income	**47,973**	46,888
Ticket sales in advance, excluding taxes and charges [1]	**129,469**	128,025
Employment related taxes	**7,348**	8,263
Other amounts payable	**45,133**	49,763
	283,639	293,453

[1] The total value of tickets sales in advance at year end was €163.3 million (2011: €164.5 million).

16 Finance lease obligations

	2012	2011
	€'000	€'000
Current portion	**41,979**	40,266
Non-current portion	**489,608**	536,971
	531,587	577,237

17 Defined contribution pension schemes

Aer Lingus 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 (the Dublin Airport Authority plc, the Shannon Airport Authority plc and SR Technics being the other sponsoring employers) for other employees who fall within the category of "General Employees" (collectively the "Irish Pensions Schemes"). Aer Lingus Limited ('the Company') 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. The Company's contributions to these two schemes are set out in the table below. These 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 the schemes is fixed.

	2012 €'000	**2011 €'000**
Irish Airlines (General Employees) Superannuation Scheme	5,171	5,436
Irish Airlines (Pilots) Superannuation Scheme	10,079	9,611

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

The IASS is a multi-employer scheme with fixed contributions made by the employers and employees in accordance with the trust and deed rules. At 31 March 2012 (the most recent date for which data is available) it had 14,758 members, comprising 4,654 active members, 5,314 deferred members and 4,790 pensioners. Approximately 69% of members are current or former employees of Aer Lingus. The statutory minimum funding standard ("MFS") is an actuarial valuation of the funding status of the IASS if it were to be wound up under current legislation at a given date. As at 31 December 2012, the IASS was estimated to have an MFS deficit of approximately €779 million (2011: deficit approximately €700 million). Approximately 65% of any deficit is attributable to employees or former employees of Aer Lingus.

The Company and the other sponsoring employers have no obligation to contribute anything other than the fixed rate of contribution to the IASS and in the absence of the assumption of additional voluntary commitments, the trustees will be required to take measures (such as changing the investment strategy or reducing benefits) to improve the scheme's financial position. In addition, the trustees of Irish pension schemes which do not satisfy the MFS by a certain deadline (currently 30 June 2013) have to submit a funding proposal to the Pensions Board. If the parties fail to agree the terms of a funding proposal, the IASS may have to be wound up. If this were to happen, active members and deferred members - those who are currently employed and not yet retired - would receive an insignificant percentage (estimated at approximately 5%) of their expected pension when they retire (based on market conditions as at 31 December 2012). This presents a significant industrial relations issue for Aer Lingus and consequent business risk exposure which could adversely impact the Company's operations in 2013 and beyond.

It is also possible that the Company's position that it has no responsibility for the deficit in the scheme could be subject to legal challenge on various grounds from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that the Company has received (that such a challenge is unlikely to succeed), a Court were to find against the Company in any such litigation, very significant loss could arise. No proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, to the Company should such claims be made and succeed.

In the context of the IASS funding shortfall Aer Lingus 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 has participated in a process of discussion under the auspices of the Labour Relations Commission ("LRC") which commenced in 2010 and, which more recently has also involved the Irish Business and Employers Confederation, the Irish Congress of Trade Unions and the Labour Court. In particular as part of this process Aer Lingus is seeking employment cost stability over the coming years. The process of discussion is complex and involves many parties. There can be no certainty that agreement will be reached between all parties involved.

At 31 March 2012 (the most recent date for which data is available) the Pilots' Scheme had 905 members, comprising 431 active members, 122 deferred members and 352 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 LRC, Aer Lingus and the Irish Airlines Pilots Association agreed certain changes to the scheme with the aim of addressing the deficit over time. The changes included an increase in retirement age from 55 to 60, a reduction in accrual rate for future service from 45ths to 60ths and an increase in member contributions from 7% to 11% of salary. There was no change in employer contributions which remain at 21% of salary. The changes were approved by the Pilots' Scheme trustees and became effective as from 1 January 2011.

As at 31 December 2012, the Pilots' Scheme was estimated to have an MFS deficit of approximately €218 million. The Company's position that it has no responsibility for the deficit in the scheme could be subject to legal challenge on various grounds from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that the Company has received (that such a challenge is unlikely to succeed), a Court were to find against the Company in any such litigation, significant loss could arise. No proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, to the Company should such claims be made and succeed.

Aer Lingus has recently agreed to engage in a process of discussion with parties affected by the funding shortfall in the Pilots' Scheme in an attempt to assist in the achievement of a fair outcome that improves the pension prospects of affected Pilots' Scheme members in a way that will balance the interests of all parties, including shareholders and employees. As is the case with the IASS, the process of discussion will be complex and involve many parties. There can be no certainty that agreement will be reached between all parties involved.

Notwithstanding Aer Lingus involvement in the two sets of discussions outlined above, it remains the Company's position, supported by firm legal advice, that it has no legal or constructive obligation in respect of either the IASS or the Pilots' Schemes, other than to continue to pay the fixed rate contributions as set out in the trust deeds of these schemes.

18 Post employment benefit obligations

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

	2012	2011
	€'000	€'000
North American Pension (a)	**4,309**	4,699
North American Post Employment Medical Benefit (b)	**2,284**	1,788
Post Employment Income Streaming (c)	**27,922**	22,118
Other	**343**	377
	34,858	28,982

(a) The Group operates a defined benefit scheme for qualifying employees of its operation in North America. Under the scheme, employees are entitled to retirement benefits of 50% of final average compensation as a lump sum, plus 1% final average compensation for each year of membership, on attainment of retirement age of 65. Retirement benefits are reduced for service less than 20 years. The scheme has 119 members (2011: 119 members) with benefit accruals and plan participation frozen.

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

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

19 Provisions for other liabilities and charges

	Business repositioning[1]	Aircraft maintenance[2]	Other [3]	Total
	€'000	€'000	€'000	€'000
At 1 January 2011	75,649	39,554	17,132	132,335
Provided during the year	2,395	15,315	3,791	21,501
Written back during the year	(7,153)	(690)	(4,467)	(12,310)
Utilised during the year	(40,988)	(16,188)	(2,846)	(60,022)
At 31 December 2011	29,903	37,991	13,610	81,504
At 1 January 2012	29,903	37,991	13,610	81,504
Provided during the year	15,106	18,661	977	34,744
Written back during the year	(75)	(6,342)	-	(6,417)
Utilised during the year	(12,513)	(12,676)	228	(24,961)
At 31 December 2012	32,421	37,634	14,815	84,870
Analysed as current liabilities				
31 December 2012	**16,171**	**9,804**	**3,757**	**29,732**
31 December 2011	9,967	21,623	2,088	33,678
Analysed as non-current liabilities				
31 December 2012	**16,250**	**27,830**	**11,058**	**55,138**
31 December 2011	19,936	16,368	11,522	47,826
Total provision				
31 December 2012	**32,421**	**37,634**	**14,815**	**84,870**
31 December 2011	29,903	37,991	13,610	81,504

[1] ***Business repositioning***
A provision for business repositioning costs is recognised when a constructive obligation exists. The amount of the provision is based on the terms of business repositioning measures, including employee severance, which have been communicated to employees. They represent the Directors' best estimate of the cost of these measures, having regard to the current status of negotiations. At 31 December 2012, the majority of the provision relates to the Greenfield cost reduction programme and the closure of the Shannon hangar maintenance operation. Measurement uncertainty associated with business repositioning provisions arise from the achievement of certain operating and financial targets and changes in human resources requirements. The provision related to the Greenfield cost reduction programme and the Shannon hangar maintenance provision are expected to be materially utilised in the next two financial years, with the remaining provision balance expected to be largely utilised in the next five 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 twelve 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.

20 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. Aer Lingus estimates the maximum amount payable would be approximately €3.5 million in the event that the guarantee was called.

Air travel tax

On 25 July 2012, the European Commission ("EC") issued a press release with regard to Irish air travel tax. In 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 and at €10 for those exceeding 300km. The EC found that the lower rate favoured flights within Ireland and to nearby parts of the UK, giving the companies concerned an economic advantage over their competitors and thus distorting competition in the internal market. The EC has ordered Ireland to recover this advantage from all airlines that had benefitted from it.

Based on the best information currently available, Aer Lingus estimates a charge of approximately €4 million could potentially apply in the event that the Group is compelled to pay the differential between the €2 and €10 rates of tax for the relevant routes. The Group complied with the relevant legislation as it was enacted at the time by the Irish Government and Aer Lingus will resist any attempts in the event that recovery of the differential between the €2 and €10 rates of tax is sought from the Group.

Arrangements relating to Aer Arann

Arising from the Group's investment in a leasing company, 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.

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.

21 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:

	2012	2011
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	**58,381**	56,362
Deferred tax liability to be recovered after more than 12 months	**(57,051)**	(51,433)
Deferred tax asset	**1,330**	4,929

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

	2012	2011
	€'000	€'000
Deferred tax asset at 1 January	**4,929**	13,537
Income statement expense	**(6,506)**	(13,168)
Tax credited directly to equity	**2,907**	4,560
Deferred tax asset at 31 December	**1,330**	4,929

22 Called-up share capital

	2012	2011
	€'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 2012 was 534,040,090 (31 December 2011: 534,040,090) of which 3,946,658 (31 December 2011: 3,946,658) were treasury shares.

23 Share premium

	2012	2011
	€'000	€'000
At 1 January and 31 December	**510,605**	510,605

24 Cash generated in operations

	2012	2011
	€'000	€'000
Profit before tax	**40,570**	84,362
Adjustments for:		
- Depreciation and amortisation	**79,503**	84,847
- Net movements in provisions for liabilities and charges	**3,147**	(50,576)
- Net fair value losses on derivative financial instruments	**28**	256
- Share options and awards expense	**3,389**	3,199
- Finance income	**(15,303)**	(15,422)
- Finance expense	**17,131**	17,330
- Net exceptional items	**(877)**	(37,161)
- Share of losses of joint venture	**190**	-
- Other losses/(gains) – net	**12,473**	(17,077)
- Post employment benefit obligations	**285**	2,198
Changes in working capital		
- Inventories	**(742)**	(213)
- Trade and other receivables	**1,708**	12,478
- Trade and other payables	**(22,994)**	3,397
Cash generated in operations	**118,508**	87,618

25 Commitments and contingencies

(a) Capital commitments

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

	2012	2011
	€'000	€'000
Contracted for but not provided		
- Aircraft and equipment	**937,121**	908,545
- Other	**2,664**	3,299
	939,785	911,844

(b) Lease commitments

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	5,425	44,498	2
Later than one year but no later than five years	24,284	115,860	-
Later than five years	35,111	-	-
	64,820	160,358	2

At 31 December 2011 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	7,714	44,096	-
Later than one year but no later than five years	32,489	144,744	-
Later than five years	49,587	9,214	-
	89,790	198,054	-

Lease commitments exclude the impact of rent prepayments received as part of consideration for the surrender of the HOB site as described in Note 4 "Net exceptional items".

26 Post balance sheet events

On 5 February 2013, the board decided to recommend a final dividend payment of 4 cent per share in respect of the year ended 31 December 2012, subject to shareholder approval at the AGM.