Aer Lingus

2013 ANNUAL REPORT

Contents

Financial Highlights

For the year ended 31 December 2013

		2013	2012	Change [2]
Results			As restated [1]	
Revenue	**€m**	**1,425.1**	1,393.3	2.3%
EBITDAR	**€m**	**189.2**	191.3	(1.1%)
Operating profit before net exceptional items	***€m***	***61.1***	*69.1*	*(11.6%)*
Net exceptional items	**€m**	**(17.4)**	(26.5)	34.3%
Operating profit after net exceptional items	***€m***	***43.7***	*42.6*	*2.6%*
Net finance expense	**€m**	**(4.2)**	(2.0)	(110.0%)
Share of profit/(loss) in joint venture	**€m**	**0.0**	(0.2)	100.0%
Income tax charge	**€m**	**(5.4)**	(6.5)	16.9%
Profit for the year	***€m***	***34.1***	*33.9*	*0.6%*
Total equity	**€m**	**852.8**	834.7	2.2%
Profit per share	**€cent**	**6.4**	6.4	0.0%
Gross cash	**€m**	**897.4**	908.5	(1.2%)
Gross debt	**€m**	**477.6**	531.6	10.2%
Net cash	**€m**	**419.8**	376.9	11.4%
Key financial statistics				
Average fare revenue per passenger	**€**	**121.62**	120.15	1.2%
Passenger/retail revenue per RPK	**€cent/RPK**	**9.1**	9.2	(1.1%)
EBITDAR margin	**%**	**13.3%**	13.7%	(0.4 pts)
Operating margin	**%**	**4.3%**	5.0%	(0.7 pts)
Key operating statistics [3]				
Passengers carried	**'000**	**9,625**	9,653	(0.3%)
Revenue passenger kilometres (RPK)	**m**	**14,807**	14,523	2.0%
Available seat kilometres (ASK)	**m**	**18,898**	18,685	1.1%
Passenger load factor	**%**	**78.4%**	77.7%	0.7 pts

[1] Refer to the basis of preparation note to the financial information regarding restatement due to adoption of IAS 19R
[2] Sign convention: favourable / (adverse)
[3] Key operating statistics relate to mainline operations and exclude Aer Lings Regional and contract flying activities

Use of non-IFRS measures

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

Non-IFRS measure	Basis of calculation	Reason for use
EBITDAR	Pre-exceptional earnings before Interest, Tax, Depreciation, Amortisation and Aircraft operating lease rental	As EBITDAR is a pre-depreciation and lease rental measure, it is widely used by airline sector analysts to compare performance of airlines that have differing fleet ownership models
Operating profit	Operating profit is defined as revenue less operating costs, before exceptional items arising within these captions. It therefore excludes finance income and expense, the results of joint ventures and tax. These items are excluded since they largely represent the impact of market conditions on the Group's investing and financing activities, as opposed to the results arising from the operation of the airline. Exceptional items are also presented separately to assist in understanding the Group's underlying financial performance. Operating margin is defined as operating profit expressed as a percentage of revenue	Operating profit is a commonly used financial measure which is not defined in IAS 1, Presentation of Financial Statements. The Group uses operating profit as a key internal measure and this figure is also provided in the income statement because the directors believe that presenting the financial result at this level gives users of the financial statements a better understanding of the Group's underlying performance
Free cashflow	Cash generated from operating activities less net capital expenditure (purchases of fixed assets exclusive of finance lease debt raised less proceeds from disposals) plus or minus net interest received/paid	Free cashflow is used by some airline sector analysts and other commentators as a measure of the cash generated by a business. It measures cash flow after capital expenditure to maintain operations but before "discretionary" spend such as dividends
Gross cash	Cash deposits and formerly available for sale bonds held by Aer Lingus Group plc and its subsidiaries	Gross cash is the measure used most commonly by management to indicate the level of financial resources available to the Group. Management believe that gross cash rather than net cash is an appropriate cash metric on the basis that Aer Lingus' debt comprises long term financing rather than short term debt or overdrafts
Gross debt	Total finance leases plus any other debt	Gross debt is the measure used most commonly by management to indicate the level of indebtedness borne by Aer Lingus
Constant currency passenger fare revenue	Passenger fare revenue generated in foreign currencies is retranslated at respective prior year FX rates and compared to current year foreign currency derived passenger fare revenue at respective current year FX rates	The Group now generates approximately half of passenger bookings outside Ireland. This results in more of our total passenger fare revenue being receivable in currencies other than the euro, our reporting currency. Movements in FX rates cause variances in total passenger fare revenue outside of normal volume and fare yield. Constant currency calculation allows for a more informative comparison of passenger fare revenue on an overall year-on-year basis
Return on equity	Profit before taxation and net exceptional items expressed as a percentage of the average opening and closing book value of equity	Return on equity is the measure used by management to assess returns generated by the business for shareholders

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

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

Chairman's Introduction

Dear fellow shareholders,

I am pleased to report that Aer Lingus again performed strongly in 2013 despite operating in difficult trading conditions, particularly in the second half of the year. Once more Aer Lingus has demonstrated that its resilient business model and its commercial strategy can generate positive returns for shareholders in a challenging environment. This is evident in the 2.3% year-on-year increase in revenues to €1,425.1 million and an operating profit of €61.1 million. This operating result represents our fourth consecutive year of profitability.

While it was a satisfactory performance, our 2013 profit was below that achieved in 2012 due mainly to a number of revenue challenges experienced in the second part of the year as well as higher costs partly resulting from positive developments in our business, including start-up costs of our contract flying for third parties. The Board and Management accept that further and continuing changes and improvements are required to continue producing strong financial results and to make Aer Lingus a more attractive investment proposition for our shareholders.

The strengths of the Aer Lingus business model are the superior quality and differentiation of our service and our competitive fares – "*Great Care. Great Fare*". Aer Lingus, along with our partners, continues to connect Ireland to central airport locations at more competitive fares than most other airlines. We continuously strive to be the airline of choice for passengers travelling to and from Ireland, using our own strong brand and our relationships with our partner airlines.

Returns to shareholders
Due to our continuing positive performance and our confidence in the future of our business, the Board is recommending the payment of a dividend of four cent per share in 2014, the same as that paid in 2013, which totalled to €21.3 million. The dividend will be paid in May 2014. The proposed dividend, which remains subject to shareholder approval at our 2014 AGM, will represent a yield of 3.1% on our 31 December 2013 share price of €1.28. The Aer Lingus 2013 Total Shareholder Return was 19.3%.

Our current dividend policy covered a three year period which will end with the payment of the 2014 dividend. Given the achievement of an operating profit in each year since 2010, the attractive prospects for the business and the increase in the Group's distributable reserves, the Board has agreed that for the foreseeable future it expects to pay an annual dividend of four cent per share provided the dividend is appropriate in the context of the Group's financial position, strategic objectives and prospects. It is proposed that the dividend will be paid as a final dividend.

Growing our business
Last year we stated that having stabilised the business and become consistently profitable our next challenge would be to achieve sustainable and profitable growth from 2013 onwards. In 2013 we added a seventh Airbus A330 long haul aircraft to our transatlantic network and launched our domestic UK contract flying for Virgin Atlantic Airways with four Airbus A320s. In 2014 we are adding three Boeing B757s to our transatlantic network and will provide direct services from Ireland to two new locations in North America, namely San Francisco and Toronto. All in all, our 2014 transatlantic seat capacity will be more than 40% greater than in 2012.

Shareholding structure
In August 2013, the UK Competition Commission (the "UKCC") issued its final report into the anti-competitive effect of Ryanair's minority shareholding in Aer Lingus. The report confirmed that the 29.8% shareholding of our closest competitor is anti-competitive and contrary to the interests of the 14 million passengers who fly annually between the islands of Ireland and Great Britain. Ryanair will now be ordered to sell down its shareholding to less than 5%.

I have always believed it unacceptable that our principal competitor was allowed to be a 29.8% shareholder and to use this shareholding to interfere with our business, including as a basis for making three costly and unsuccessful hostile takeover attempts in 2006, 2009 and most recently in 2012.

We look forward to the implementation of the UKCC's findings. This process will take some time to conclude as the findings have already been subject to one - unsuccessful - legal challenge from Ryanair and are now being further appealed by them.

Financial structure
Aer Lingus is in sound financial shape, with net assets of €852.8 million at the end of 2013. Our December 2013 balance sheet is strong with €897.4 million of gross cash and debt of €477.6 million, which was primarily related to relatively long-term aircraft lease obligations which are secured by the value of the relevant aircraft. This balance sheet gives us the ability to withstand the cyclical pressures and occasional disruptions to which our industry is subject, and will also allow us to invest to improve and grow our business.

Our challenge is to deploy this balance sheet strength in the best interests of our shareholders by applying our resources to maintain our strengths and maximise shareholder returns. We must also consider our long haul aircraft delivery commitments, our short haul fleet renewal, our shareholding structure and the resources required to pursue both organic and inorganic growth opportunities.

IASS Pension
In January and May 2013, the Irish Labour Court issued interim and final recommendations regarding the funding situation of the Irish Airlines (General Employees) Superannuation Scheme (the "IASS"). Implementation of the Labour Court recommendations would involve Aer Lingus Limited making a one-off contribution of €110 million to a new defined contribution pension scheme for existing employees and a further €30 million one-off contribution to a new defined contribution scheme in respect of former employees who are deferred members of the IASS. In return for these contributions, Aer Lingus would obtain employment cost predictability and certainty over the period to 2017.

Aer Lingus remains committed to the implementation of these recommendations. They represent a compromise that forms the basis for the implementation of a solution that balances the interests of all parties, including shareholders, employees and customers.

I share with many others disappointment and frustration that a solution has not yet been achieved. Although some progress was made in 2013, regrettably we remain without an agreed way forward. The insistence of some employee representatives on arranging work stoppages will achieve nothing and will help no one, particularly the company of which they are part and their colleagues who work for it.

The issuing of a circular by Aer Lingus setting out all the details of the proposed IASS solution and the convening of an extraordinary general meeting to seek approval from shareholders has been delayed until much later than we had previously hoped and expected. I confirm that any solution to this issue that involves Aer Lingus proposing to make a once-off financial contribution to a new defined contribution scheme will be put to shareholders for their approval at an extraordinary general meeting.

Board
I am extremely grateful for the support of all Board members during the past year. Three Non-Executive Directors, Mella Frewen, Danuta Gray and Tom Moran, retired from the Board at the end of 2013 following the expiry of their terms of appointment. In addition, Colin Hunt and Francis Hackett retired from the Board in January and February of this year following expiry of their terms of appointment. I would like to sincerely thank Colin, Danuta, Francis, Mella and Tom for their contributions to Aer Lingus during their terms as Board members, which coincided with the difficult, but successful, turnaround of the Group.

William Slattery was appointed to the Board as a Non-Executive Director in July 2013 following his nomination by the Minister for Transport, Tourism and Sport. John Hartnett, Nigel Northridge and Nicolás Villén joined the Board as independent Non-Executive Directors in January 2014. Frank O'Connor also joined the Board in March 2014 as a Non-Executive Director nominated by the Minister for Transport, Tourism and Sport. These new Directors bring deep experience to our Board from the banking, consumer goods, infrastructure and technology sectors.

These changes in directors form part of Aer Lingus' ongoing programme of Board refreshment, renewal and commitment to best practice in corporate governance.

Andrew Macfarlane informed the Board in March 2014 of his intention to step down from his roles as Chief Financial Officer and Executive Director to take up a new role in the Middle East outside of the aviation industry. I wish to thank Andrew for his significant contribution to the success of Aer Lingus since his initial appointment as interim chief financial officer in 2009. Andrew will remain in his current role for up to 6 months to facilitate the transition to a new Chief Financial Officer.

Conclusion
We have made significant progress in 2013 with respect to growing our business and are well positioned to continue with our plans in 2014. Our core business is fundamentally strong, profitable and supported by an appropriate and well functioning business model. However, there is more to be done to change outdated legacy practices, to increase operational efficiency and to further reduce our cost base to ensure that we can compete effectively and profitability into the future. Our management team is focused on these issues. We must also resolve the ongoing pension and shareholder issues.

As always, I would like to express my sincere thanks to all of our customers, our excellent Aer Lingus staff, my fellow directors and to you, our shareholders, for your continued support of Aer Lingus.

Sincerely,

COLM BARRINGTON
Chairman

27 March 2014

Chief Executive Officer's review

Dear fellow shareholders,

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

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

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

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

- We launched our contract flying operations on behalf of Virgin Atlantic Airways ("Virgin") in the UK market comprising four Airbus A320 aircraft operating on short haul domestic UK routes serving London Heathrow. As expected, this operation broadly broke even in 2013 (reflecting start-up costs incurred in early 2013) and is forecast to turn profitable in 2014.

- We expanded our transatlantic operations with the re-deployment of an additional Airbus A330 aircraft into our mainline long haul fleet. This aircraft (which had been previously deployed by Aer Lingus on an extended codeshare with United Airlines on a Washington – Madrid route) was used to increase frequencies on our Dublin to Boston and Chicago routes and in this way provide a double daily service to both US destinations, improving choice and connectivity opportunities for our passengers. This drove an increase in our mainline long haul capacity of 11.6%. We successfully converted this additional capacity into extra seat sales and achieved long haul load factors in excess of 90% in the key summer trading months of June, July and August. On a full year basis, mainline long haul load factor increased 0.6 points to 83.1% despite this additional capacity.

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

- In July 2013, we experienced exceptionally warm weather conditions in Ireland and Northern Europe. These conditions changed passenger behaviour with an adverse impact on our booking patterns, mainly on continental routes, as Irish customers deferred foreign leisure travel plans or chose to vacation at home in the traditionally busy Summer holiday season. This impacted both passenger volumes and yields. Although we noted this trend in our outlook statement at the time of our first half results, we had taken actions (including seat sales) to encourage demand and recover lost passengers and revenues through Q3 and Q4 2013 trading.

- In mid-August 2013, we began to notice more intense than usual competition in our key mainline short haul markets. In particular we noticed a change in the short haul yield environment with heavily discounted fares evident across the European market. Continental booking patterns again declined relative to prior year and we responded to this market change by introducing more proactive pricing. Despite this, by mid-September, our forward booking profile for the remainder of the year indicated that it would not be possible for us to fully recover passenger volumes and revenues previously lost. We therefore issued a trading update to the market on 13 September 2013, reducing our full year operating profit outlook guidance to around €60 million. In order to achieve this result, we took some carefully planned tactical decisions with respect to Q4 2013 such as reducing short haul capacity by 4.3% with a view to protecting revenues but avoiding costs and therefore preserving margin.

- On long haul, we continued to experience strong volume and fare revenue per seat performance throughout 2013 despite the deployment of additional capacity on our transatlantic network in the form of a seventh Airbus A330 aircraft.

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

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

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

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

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

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

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

1. Cost and business optimisation

- Simplify and improve our core airline processes for the benefit of our customers
- Transform various support functions into profit centres
- Further headcount reductions and increased productivity by the end of 2015
- Total cost reduction target of €30 million

2. Revenue excellence

- Further develop our merchandising and retail offers
- Delivering the "*customer journey of the future*". As part of this initiative in 2014, we will:

(i) Re-launch our website with a re-designed booking portal;
(ii) Improve our mobile app;
(iii) Have all our transatlantic flights from Dublin pre-cleared for the Summer schedule (for the first time);
(iv) Introduce fully lie-flat seats on our long haul flights by Q1 2015;
(v) Move to the Queen's Terminal at London Heathrow offering a much enhanced passenger experience; and
(vi) Replace our current passenger reservation system with state of the art technology

3. Our people

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

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

Update on fleet

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

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

UK Competition Commission ("UK CC") review

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

The UK CC's final report also requires that:

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

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

Ryanair appealed the findings of the UK CC's final report to the Competition Appeals Tribunal on a number of grounds. This appeal was rejected by the Competition Appeals Tribunal on 7 March 2014. This decision represents the latest in a series of decisions adverse to Ryanair in its attempts to prevent the UK competition authorities reviewing its minority shareholding in Aer Lingus.

2014 outlook

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

Conclusion

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

In addition, we have had to accept that certain legacy issues remain unresolved for the time being, notably the funding issues in the IASS and the continuing adverse presence of Ryanair, our main competitor, as the largest shareholder on our share register. Unfortunately, the resolution of these matters is taking longer to achieve than we would like and we are not in a position to completely control the resolution of either issue.

On the other hand, our continuing strong long haul performance presents a real opportunity for further revenue growth in 2014. We remain committed to the delivery of our medium term growth strategy and the creation of value for our shareholders. We see good opportunities for the future but we need CORE to deliver them.

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

CHRISTOPH MUELLER
Chief Executive Officer

27 March 2014

Operating Review and Key Performance Highlights

Our business model

Medium term growth strategy	• **Three primary components: Aer Lingus mainline and Regional franchise together with ACMI business & investment opportunities**
Market and competition	• **Leading market positions maintained in an increasingly competitive pricing environment, particularly on short haul**
Operating model	• **Value carrier model; superior quality service offered at competitive fares; discretionary add-ons (e.g. assigned seating); connectivity through our Dublin hub; extensive use of partnerships to offer destinations to which we could not fly profitability using our own aircraft; manage capacity to increase revenue per seat while controlling cost**
Specific 2013 business objectives	• **Increase revenues, maintain cost discipline & deploy assets in a value accretive manner**
2013 business outcomes	• **Increased passengers & revenue across our network; acceptable profit in a difficult market; commencement of contract flying activity; further efforts to more effectively manage costs; less progress on pension matters than originally hoped**

Our medium term growth strategy
Aer Lingus exists to connect Ireland with the world and the world with Ireland. Our goals are (i) to be the carrier of choice for air passengers from all over the globe who wish to travel to and from Ireland while also (ii) increasing the flow of non-Ireland origination and destination passengers through our network. We seek to do this in a manner which can generate an attractive return for our shareholders by profitably serving demand in our key markets and delivering a safe and high quality service offering to our customers.

In 2012, we expressed this strategic objective in terms of our medium term growth strategy which focused on three main areas of our business. It remains appropriate to describe our strategy using this framework:

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

Together, these components have the ability to create sustainable growth in the current market context. In order to facilitate this growth we must continue to focus on the following enabling factors:

- **Optimising our network and partner relationships**
- **Effectively managing our cost base**
- **Definitively resolving remaining legacy issues**

In 2013, we achieved significant progress on these strategic components and enabling factors and we have further ambitions to pursue in 2014. Our progress to date and plans for the future are discussed more specifically in our review of 2013 business outcomes below.

Aer Lingus uses the following high level key performance indicators to assess whether our strategy is delivering its intended results:

Year-on-year development	2013	2012	2011
Year-on-year revenue growth (%)	2.3%	8.2%	6.0%
Year-on-year operating result growth (%)	(11.6%)	40.7%	(6.4%)
Year-on-year operating margin growth (ppts)	(0.7 ppts)	1.2 ppts	(0.5 ppts)

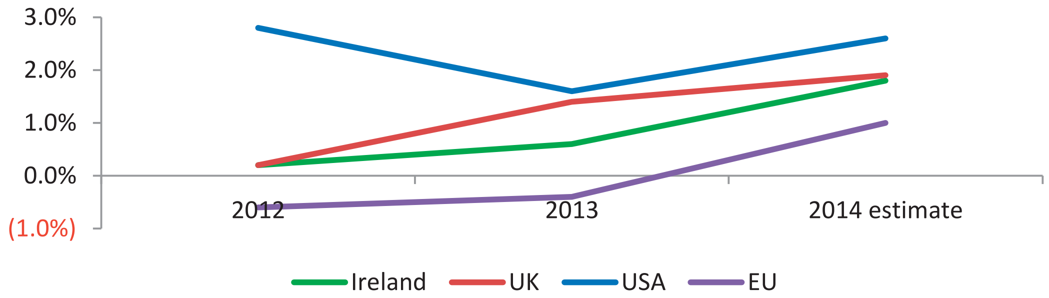
Annual measures	2013	2012	2011
Passenger numbers ('000)	(0.3%)	1.5%	1.8%
Return on equity (%)	6.7%	8.0%	5.8%

Market and competition
We sought to achieve our 2013 business objectives against a difficult market environment.

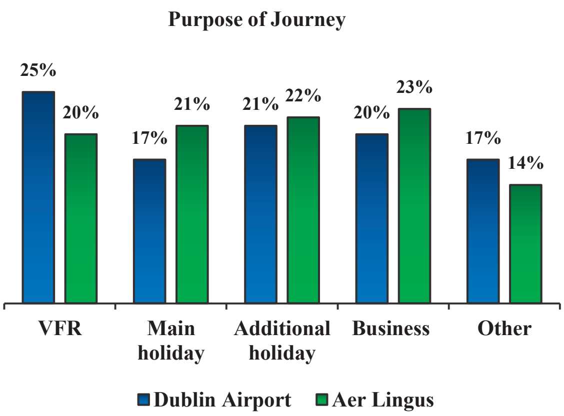
Aer Lingus operates in both the European short haul and transatlantic long haul markets. Our primary geographical market is Ireland but other key markets include the United Kingdom, North America, Germany, France, Benelux, Spain and Portugal. A key commercial focus for Aer Lingus is the continued development of passenger traffic through our integrated network so that we serve passengers seeking to travel in both directions between European and North American destinations through Dublin Airport while also providing a comprehensive service to passengers travelling to and from Ireland.

Demand for Aer Lingus' services is strongly linked to the fundamental strength of the Irish, UK, European and North American economies. In particular, passenger growth tends to correlate with GDP growth over time as economic conditions affect our customers' available spending capacity and their propensity to apply that spending capacity on our air travel services.

In 2013, real GDP growth in our main markets remained modest and the effect of fiscal austerity policies on customer spending is still a factor.



Despite this, there are some encouraging signs of improvement. The average unemployment rate in Ireland during 2013 was 13.2% and while the figure remains high, the rate has decreased by 1.5 percentage points compared with 2012 (Source: CSO). Irish consumer sentiment in December 2013 reached its highest level since 2007 (source: KBC/ESRI index) reflecting a positive outlook for the next 12 months. In addition, inbound tourism has grown significantly as Ireland becomes a more attractive holiday destination for tourists from Europe and the US. Between November 2013 and January 2014, the number of trips to Ireland increased by 7.2% (source: CSO) and this helped passenger numbers at Dublin Airport (our main operating hub) increase 5.8% to 20.2 million passengers, continuing the positive trend noted in 2012.



Note: VFR is an abbreviation for visiting friends and relatives

The Irish travel market continues to be dominated by passengers travelling for leisure and non-time sensitive reasons. This is a key influencing factor in the design of Aer Lingus' operating model (discussed below).

The competitive intensity of our market environment generally increased in 2013. While we experienced strong competition on particular markets (such as Dublin to London and Belfast to London) throughout the year, the competitive dynamic across our short haul network generally intensified further in the second half of 2013 which was characterised by increased pricing competition in most of our key markets. This compounded the weakness in demand experienced during early Q3 2013 as a result of the exceptionally warm weather conditions in Ireland and Northern Europe. We note that several European air carriers downgraded profit guidance for the year and cited market conditions as a key causal factor.

Despite these competitive conditions, Aer Lingus (including Aer Lingus Regional operations) continues to hold a strong market share of 43% of all passenger traffic at the three main Irish airports. This market share percentage is unchanged from prior year and is two percentage points higher than the equivalent figure in 2011. This growth in market share since 2011 is particularly positive given total passenger traffic at the three main Irish airports has increased more than 5% since 2011.

Several long haul carriers launched new transatlantic services from Dublin and Shannon in 2013. Total seat capacity on Irish routes over the North Atlantic market increased by approximately 12.0% as United Airlines, American Airlines and US Airways added capacity through new routes and additional seats on existing services. We, too, added capacity on the transatlantic market and successfully sold the additional seats introduced as reflected by the 0.6 percentage point increase in our long haul load factor. Overall, we maintained our share of all seat capacity in the Ireland to North American and Canadian market at approximately 53%.

Aer Lingus continues to respond to competitive and macroeconomic developments in our key markets by focusing on inbound markets and traffic on the other end of ex-Ireland routes, in particular Germany, Italy and the Benelux region on short haul services and the US on long haul services. The Group also continues to deliberately target transfer traffic through our network as a way of offsetting weaker point-to-point demand. These initiatives are discussed further in our review of 2013 business outcomes.

Certain macroeconomic factors are also key features of the market environment in which Aer Lingus operates. In particular, fuel prices, airport charges and FX rates are key market elements which can materially impact our operating costs.

Airport charges continued to increase in 2013. In January 2014, the UK'S Civil Aviation Authority announced that London Heathrow charges will decrease by 1.5% per annum over the period to 2019. While this is a favourable development, we still expect London Heathrow charges will increase for us in 2014 due to expected passenger volumes using this airport and an increase in actual charges up to the regulatory permissible price cap in 2014.

Fuel prices were volatile during 2013, with a spread of approximately US$237 per metric tonne between the monthly average high price in February 2013 of US$1,113 and the monthly low of US$876 in May 2013 (source: Bloomberg). To put this in context, each US$10 change in the price per metric tonne of fuel could have a full year impact of approximatelyUS$5.0 million on our total annual fuel cost before currency or hedging impacts are taken into account. We continue to operate a systematic fuel and FX currency hedging policy and, as at 31 December 2013, have 61% of our total expected 2014 fuel requirement hedged at US$956 per metric tonne and US$179 million of our total expected US$ trading requirements purchased at a rate of €1 = US$1.33. This will provide us with some certainty and protection against adverse movements in fuel price and FX rates in the year ahead.

Our operating model

We think of Aer Lingus' operating business model in terms of how we configure our activities and resources to translate our business objectives into performance outcomes taking account of our market environment. The key characteristics of our operating model are:

Operating model characteristic	Description
Value carrier model	• Neither pure legacy nor pure low fares operating models are appropriate to serve underlying passenger demand in our key markets. For this reason, Aer Lingus has implemented a "*value carrier*" model whereby our passenger proposition is deliberately positioned between a full service legacy carrier and a pure low cost / low fares model. Our proposition is a competitively priced seat with additional features which passengers can select to buy or not as they choose. • Critical to our operating model is the provision of services to airports located at central locations which enhance connectivity and convenience for our customers. Our goal is to offer this airport selection at more competitive prices than most other European legacy carriers. • Aer Lingus seeks to leverage our unit cost advantage relative to the legacy carriers and our superior quality service relative to low fare airlines to offer a more compelling passenger proposition and in this way drive trading results. • Another key element of the value carrier model is to align capacity with underlying demand and in this way maximise the return generated from our seat production.
Open network architecture	• Aer Lingus provides further enhanced connectivity options to worldwide destinations through a wide range of airline partners. This diverse range of partners epitomises our concept of "open network architecture", whereby our neutrality allows us to partner across alliances and offer connectivity through major hubs to worldwide destinations on all continents. Aer Lingus is deliberately not a member of any of the global airline alliances in order to preserve our neutrality and in this way provide better connectivity for our customers. • We will partner with other airlines on routes where this enables us to serve underling passenger demand more profitably than if we were to operate these routes ourselves on a standalone basis. • We offer the widest possible range of destinations, even where this involves the use of our partners' aircraft rather than our own aircraft to carry passengers to their final destination.
Flexibility	• Aer Lingus seeks to maintain a flexible business model in order to be able to act quickly to capitalise on emerging opportunities and to address risks and challenges as these arise. This is reflected in the Group's non-dogmatic approach to resource acquisition and allocation. • Aer Lingus operates a combination of mainline, wholly owned operations as well as Aer Lingus Regional franchise operations carried out on commercial terms by another entity (Aer Arann). • The Group also adopts a balanced approach to aircraft ownership and will either acquire or lease aircraft depending on a range of criteria including the suitability of selected ownership model to generate a return from the opportunity in question. • Aer Lingus will lease in aircraft (e.g. Boeing 757 transatlantic flying) and lease out aircraft (e.g. Virgin "Little Red" UK domestic operation) as appropriate.

	• In addition, Aer Lingus will use fixed term contract staff to address operational demands in the peak summer months in areas such as ground operations and inflight services as well as to acquire specific skill sets not present in the organisation but which may only be required for fixed periods of time. For example, Aer Lingus has contracted pilot services from a third party provider for additional transatlantic flying due to start in 2014 while a decision was taken to employ cabin crew directly for this additional flying on the basis that this makes commercial sense for Aer Lingus.
Organisational structure	• Aer Lingus' internal structure is organised by functional divisions to facilitate effective management of the Group's activities which are frequently complex and subject to significant regulation. A member of the Aer Lingus executive team leads each functional division. • Aer Lingus' internal structure is evolving as necessary to meet the demands of the Group's environment (see comments in our review of 2013 business outcomes).

2013 business objectives and outcomes

We achieved significant progress in terms of our 2013 business objectives through the execution of our strategy and the effectiveness of our operating model. We have set ourselves renewed and ambitious targets for 2014 and acknowledge that there are both opportunities to be pursued as well as challenges to be addressed in the year ahead. The delivery of our 2013 business objectives is set out in the table below:

2013 business objective	2013 progress achieved
Achieve further revenue growth	• Continue to drive fare revenue per seat • Continued retail revenue growth • Launch ACMI flying and other opportunities
Expand the range of markets served by our business	• Launch of new routes on a profitable basis • Ongoing evolution of our partnerships
Maintain cost discipline throughout our business	• Continued focus on cost management and operational efficiencies • Continued evolution of internal structures to drive effective and efficient business operation
Deploy our assets in a disciplined, productive and value accretive manner	• Continued focus on demand led network management • Effective fleet management
Differentiate Aer Lingus from our primary competitors through superior quality customer experience	• Drive further improvements in customer service and satisfaction levels
Definitively address pension funding issues	• Limited progress achieved

1. Continue to drive fare revenue per seat

2013 goal: Continue to focus on growth in revenue per seat as a fundamental cornerstone of our commercial strategy. In particular, the challenge was to successfully sell the additional capacity introduced on our transatlantic routes as a result of the re-deployment of an additional A330 aircraft which previously operated outside our mainline fleet on an extended codeshare with United Airlines.

2013 business outcome and relevant key performance indicators: On an overall network basis, we achieved this targeted growth although there were variations in performance across our network. The key performance indicator in assessing the 2013 outcome is fare revenue per seat as set out below:

€	2013	*Growth vs. prior year*	2012	*Growth vs. prior year*	2011	*Growth vs. prior year*
Short haul	67.88	*(1.2%)*	68.67	*3.9%*	66.09	*5.5%*
Long haul	288.65	*(0.2%)*	289.12	*16.6%*	248.03	*4.0%*
Total network	90.43	*2.0%*	88.70	*7.8%*	82.31	*4.7%*

Short haul fare revenue per seat declined by 1.2% in 2013 which still represented a reasonable outcome given the competitive European pricing environment throughout most of the second half of 2013. This result also reflects careful management of our short haul capacity during the year to protect fare yield.

Long haul fare revenue per seat declined by 0.2% as pricing adjusted to the additional capacity deployed in the form of the seventh A330 aircraft. Additionally we also incurred an adverse impact from the weakening of the US$ as a larger proportion of our long haul revenue is now derived from the US market. The weakening of the US$ however, had a favourable impact on significant costs denominated in that currency (e.g. fuel, aircraft hire and maintenance costs).

Overall revenue per seat increased by 2.0% as the relative mix of passengers changed during the year with the proportion of higher yielding long haul passengers increasing relative to short haul passengers.

2014 priority: Growth in revenue per seat on an overall network basis. This will not be without its challenges. In particular, the outlook for the short haul fare environment for 2014 remains uncertain with very competitive pricing still evident across Europe. We will continue to carefully manage short haul capacity deployment to maximise load factor and yield. Our long haul priority in 2014 will be to successfully sell the incremental seat capacity deployed on our new routes directly serving San Francisco and Toronto from Dublin and which are scheduled to commence in Spring 2014.

2. Continue retail revenue growth

2013 priority: Introduce the additional retail revenue opportunities in our product pipeline at the start of 2013 including the roll-out of long haul wi-fi and refreshed inflight catering opportunities. Also, implement seasonally varied pricing strategies appropriate for certain retail elements (e.g. baggage charges).

2013 business outcomes and relevant key performance indicators: These new products and the seasonally varied pricing strategies were successfully introduced in 2013 and were important in supporting retail revenue growth in 2013. However, we continue to note an overall trend towards a lower level of checked-in bags which is impacting overall revenues derived from baggage charges.

The key performance indicators in assessing the 2013 outcomes are retail revenues generated as well as spend per passenger:

€ million	2013	*Growth vs. prior year*	2012	*Growth vs. prior year*	2011	*Growth vs. prior year*
Retail revenue (€ million)	181.5	*2.8%*	176.5	*4.6%*	168.7	*2.2%*
Retail revenue per passenger (€)	18.85	*3.1%*	18.28	*3.1%*	17.73	*0.3%*

Specifically in 2013, Aer Lingus launched a significantly refreshed and re-developed inflight food offering in conjunction with a high profile Irish chef, Clodagh McKenna. The new "*Bia*" offering replaced the SkyDeli menu in November 2013 and is expected to further drive increased inflight spend per passenger in 2014. We also commenced our long haul wi-fi offering during 2013.

2013 retail performance was also helped by price increases on the online booking fee and baggage charges. The long term trend is a continuing decline in baggage charges and in order to address this trend, we launched a more nuanced seasonal baggage charge in late 2013.

2014 priority: Continue to drive the evolution of our retail product portfolio.

3. ACMI and other business development opportunities

2013 priority: The pursuit of ACMI prospects with other carriers represents an important opportunity to grow our business.

2013 business outcomes and relevant key performance indicators: The successful commencement of contract flying operations for Virgin and Novair in 2013 is consistent with the delivery of our strategy. Due to commercial sensitivities, we do not separately disclose profitability in respect of these operations but both contracts are performing in line with expectations and both will make a positive contribution to our operating result in 2014. With regard to the Virgin contract, we generated three quarters of revenues but four quarters of costs due to pre-commencement preparation work undertaken in Q1 2013. The strategic value of these operations is the combination of the cost advantages of a start-up operation with our long standing operational experience and capabilities. In addition, such operations represent a lower risk opportunity for growth than conventional organic expansion and facilitate improved asset utilisation and productivity from our asset base although there is risk attaching to contract renewal.

Our winter season contract flying for Novair commenced in December 2013 and is contracted to continue for three winter seasons until early 2016.

2014 priority: Ensure that both the Virgin and Novair contracts continue to perform in line with expectations. In addition, we will continue to pursue and realise further ACMI opportunities with third party carriers.

4. Launch new routes on a profitable basis

2013 priority: Identify suitable markets which might be served by the application of additional capacity in a manner which would increase future revenues and profits and to then take the necessary planning and pre-commencement steps to launch these new routes.

2013 business outcomes and relevant key performance indicators: We managed our integrated route network dynamically and made network decisions on the basis of financial performance. We ceased flying on certain routes where it no longer made financial sense to continue to do so.

In Summer 2013, we increased long haul frequencies to Boston and Chicago and also introduced new short haul services including Shannon to Faro and Belfast to Majorca along with increased frequencies on existing popular destinations such as Berlin, Lanzarote, Lisbon and Nice. For Winter 2013, we introduced two new short haul routes (Dublin to Toulouse; Shannon to Lanzarote) and increased frequencies on 12 existing services (including Lisbon and Malaga).

Summary of increased Aer Lingus transatlantic capacity in 2014

	ASK Growth	Seat Growth
Overall long haul growth in 2014	24%	20%
This growth may be analyzed as:		
Dublin to San Francisco	13%	8%
Dublin to Toronto	6%	6%
Other (Shannon to New York/Boston)	5%	6%

2014 priority: Similar to the optimisation of unit revenues discussed above, we will be focused in 2014 on the successful operation our new transatlantic routes.

We will considerably expand our transatlantic network in early 2014 through the addition of two new direct services from Dublin to San Francisco and Toronto and increased frequency on services from Shannon to Boston and New York. This is a significant expansion on top of our existing services to Boston, New York, Chicago and Orlando and the increased frequency and new services allows us to offer onward connectivity to 77 cities in the US and Canada through our airline partners.

Altogether, these changes will add 24% to our long haul capacity (as measured by ASKs) in 2014. The expansion is being facilitated through the 'damp lease' (i.e. the lessor provides the aircraft, flight crew, maintenance and insurance but we provide cabin crew) of three Boeing 757 aircraft which are well suited for the profile of these routes. Two of the Boeing 757 aircraft will replace the A330 aircraft currently based at Shannon and allow it to be deployed on the new Dublin to San Francisco service. The third Boeing 757 will be used to operate the Dublin to Toronto service. Each of the Boeing aircraft will carry the Aer Lingus livery and be fitted out to offer our passengers an experience consistent with that on our existing A330 transatlantic operation.

We expect total seat capacity on the Ireland – North Atlantic market to increase by approximately 16% in Summer 2014. However Aer Lingus will account for almost 11% of this total increase via the capacity additions discussed above.

5. *Ongoing evolution of our partnerships*

2013 priority: Derive the greatest benefits from our open network architecture by expanding and deepening our existing portfolio of partnerships, codeshare and interline agreements.

2013 progress achieved and relevant key performance indicators: We continued to build and develop our partnership arrangements with the aim of providing our customers with access to more destinations on all continents. This approach allows us to extend our network reach while managing risk and cost implications.

Our Aer Lingus Regional franchise partnership with Aer Arann continued to perform positively in 2013. Passengers carried on the franchise routes increased by 10.1% to 1.1 million. Aer Lingus is also a partner in a leasing group which is in the late stages of acquiring eight ATR 72-600 aircraft which will be leased to Aer Arann. The franchise continues to be a key element of the integrated Aer Lingus network.

In 2013, approximately 27% (2012: 23%) of total long haul passenger traffic either connected from, or to, our partner airlines services. In addition, we continued to grow interline revenues and passenger numbers by 17.6% and 6.0% respectively compared to 2012:

Interline traffic trends	2013	2012	2011
Interline revenue (€m)	77.4	65.8	60.5
Interline passengers ('000)	882	832	789

If intra-Aer Lingus network transfer passengers are taken into account (including Aer Lingus Regional services), approximately 48% of our total long haul passengers carried involved a connection.

During 2013, we secured the following new and strengthened partnership arrangements:

- In February 2013, we announced a codeshare agreement with JetBlue Airways, expanding our pre-existing interline partnerships with that airline at New York JFK and Boston Logan International. The codeshare commenced on 3 April 2013 which aligned with Aer Lingus' move from Terminal 4 in JFK to JetBlue's Terminal 5. This agreement and move to JetBlue's terminal at JFK strengthens our relationship with this partner airline and provides significant benefits to our customers in accessing over 40 destinations across the US from New York and Boston.

- In March 2013, we announced an expansion of our code-share agreement with United Airlines, adding United's services between Washington and Dublin and Shannon and Chicago to the Aer Lingus booking engine and allowing United access to Aer Lingus services from Dublin to Manchester to Birmingham.

2014 priority: Seek further opportunities to drive passenger volumes through our expanding partner network and to fully leverage the advantages of our open network architecture. We will transfer our London Heathrow operations to that airport's new Terminal 2 facility in 2014 where we will be one of the largest operators. We will share this terminal with 23 carriers from the Star Alliance. This proximity will provide us with an opportunity to provide short haul feed services at both this terminal and other terminals in Heathrow. We will also continue to build on and leverage our successful codeshare partnership for connecting traffic with British Airways. Heathrow remains a focal point for both the mainline and business development elements of our medium term growth strategy.

6. *Continued focus on cost management and operational efficiencies throughout our business*

2013 priority: We remain very aware of the highly competitive environment in which Aer Lingus operates, especially as we compete with one of Europe's low cost leaders on the majority of our short haul routes ex-Ireland. For this reason, we continued to pursue cost reduction opportunities and operational efficiencies across the Aer Lingus business despite the formal end of the Greenfield programme at the start of 2013.

2013 business outcomes and relevant key performance indicators: In 2013, we continued to experience price inflation in relatively non-controllable costs such as airport and enroute charges (0.8%). Furthermore, the positive effect of currency hedging activity on our income statement was lower than in previous years as newer hedge contracts are executed at rates which are less favourable than in the past. In this context, we continued to focus attention on reducing, and where possible, eliminating controllable costs from the business.

A key 2013 initiative was the announcement in April 2013 of a voluntary severance programme ("VSP") aimed at reducing headcount across the Group by 100 full time equivalents. The number of staff who expressed an interest in the programme exceeded this target. However, many chose not to commit to the VSP due to delays in achieving resolution of the IASS funding situation leading to uncertainty about their future pension benefits. This had the effect of slowing the process of securing staff exits. A total of 124 staff have agreed to leave under the VSP and at 31 December 2013, 119 staff had left Aer Lingus under the VSP. Due to the back-ended profile of VSP exits in 2013, the full year benefit of these exits will be realised in 2014 and subsequent years. The total cost of the VSP was €8.9 million and the annual employment costs of those who left was €5.3 million.

Other 2013 activity in relation to staff costs includes engagement in an independently chaired pay tribunal on pilots' pay (which has yet to conclude); action on staff absenteeism in peak seasonal periods and the greater use of fixed term employees during seasonally busy periods.

With regard to non-staff costs, Aer Lingus has agreed revised terms with a number of large maintenance providers which reduce the overall cost of related contracts. We agreed revised payment arrangements with certain large suppliers in return for improvements in other commercial terms and we are also examining ways to participate in infrastructural investment and development in Dublin Airport so that our cost position would be improved. At the start of 2014, we moved to a new smaller, fit-for-purpose corporate headquarters in Dublin Airport which should drive further process and efficiency improvements.

2014 priority: We have made progress in identifying, evaluating and implementing cost saving and productivity improvement measures across the organisation but we firmly believe that more action is necessary to ensure Aer Lingus has the requisite flexibility and adaptability to respond to market conditions. For this reason, a key element of the newly launched CORE programme is a €30 million cost reduction target by the end of 2015 and we will provide updates on progress as part of our regularly scheduled trading results.

7. Continued evolution of internal structures to drive effective and efficient business operation

2013 priority: In order to remain competitive and profitable in the dynamic airline sector, it is imperative that we continually strive to identify opportunities as they arise and to implement change when necessary. We make changes to our organisation structures to support these goals where needed.

Progress achieved in 2013 and relevant key performance indicators: The key performance indicator here is qualitative rather than quantitative and relates to the ability of the organisation to respond to challenges.

During 2013, we made certain changes to address specific organisational issues and since the start of 2014, we have announced some further changes either to address areas where it is felt that improved performance is required or to increase the speed of change.

2014 priority: Our ability to react to market developments and adjust our operations to competitive pressures is crucial (as was evidenced in the second half of 2013). However, our organisation must continue to evolve if it is to respond to ongoing market developments. Our 2014 priority will be to continue to identify further internal changes required and execute them on as timely basis as possible.

In particular, we will seek to leverage advantages from planned system and process changes to further adapt and streamline our internal structures. In this regard and as part of the CORE programme, we expect to make important progress in 2014 with regard to upgraded IT infrastructure in areas such as our passenger services, revenue accounting and baggage management. Aer Lingus has a number of legacy hardware and software systems, which we are in the process of upgrading and replacing and work on this will continue in 2014.

8. Continued focus on demand led network management

2013 priority: Further optimise our integrated route network and explore whether latent demand on new routes could be profitably served by Aer Lingus, either alone or with a partner. The continued development of our mainline network is consistent with our medium term growth strategy. 2013 short haul capacity deployment was expected to be low mainly due to network changes relating to our Belfast base. However long haul capacity was increased in order to serve increased demand in the transatlantic market.

2013 business outcomes and relevant performance indicators: Short haul capacity deployment was 4.1% lower than prior year due to:

- The impact of scheduled fleet changes (specifically two A319 aircraft replacing two larger capacity A320 aircraft in our mainline short haul fleet);
- Changes to our underlying route network which saw overall short haul average sector length decrease as longer sector routes were replaced with short sector flying; and
- Tactical capacity reduction decisions taken in Q4 2013 in response to intensified fare pricing noted across Europe in the quarter. These tactical adjustments were successful and we achieved a small increase in short haul load factor on a full year basis.

Long haul capacity deployment increased by 11.6% in 2013 due to:

- The introduction of an additional (seventh) A330 aircraft in our mainline long haul fleet which allowed us to increase the frequency of services from Dublin to Boston and Chicago (providing double daily services to both destinations and supporting network connectivity), and
- The earlier commencement of our Summer 2013 schedule which was launched in mid-March 2013

Network performance - capacity

ASKs	2013	*Growth vs. prior year %*	2012	*Growth vs. prior year %*	2011	*Growth vs. prior year %*
Short haul (million)	11,954	*(4.1%)*	12,464	*(0.4%)*	12,509	*2.6%*
Long haul (million)	6,944	*11.6%*	6,221	*2.3%*	6,084	-
Total network (million)	**18,898**	***1.1%***	**18,685**	***0.5%***	**18,593**	***1.8%***

The response of load factor to capacity management is a key performance indicator in assessing network performance outcomes in 2013 (although the unit revenue metrics outlined earlier are also relevant in this regard).

Network performance – load factor

Load factor	2013	Growth vs. prior year %	2012	Growth vs. prior year %	2011	Growth vs. prior year %
Short haul	75.6%	0.2 pts	75.4%	0.8 pts	74.6%	(0.3 pts)
Long haul	83.1%	0.6 pts	82.5%	4.9 pts	77.6%	(0.8 pts)
Total network	**78.4%**	**0.7 pts**	**77.7%**	**2.1 pts**	**75.6%**	**(0.5 pts)**

Overall load factor increased 0.7 percentage points. Short haul load factor increased by 0.2 percentage points as we filled more available seats than in 2012. Long haul load factor increased 0.6 points as we effectively sold the additional capacity introduced in our North Atlantic services and maintained the strong performance on our existing services. This is indicative of the positive interaction between underlying demand and the attractiveness of Aer Lingus' service on these routes.

2014 priority: Our 2014 short haul capacity is expected to be in line with 2013 as we concentrate on maximising load factors and revenue per seat. There are no planned changes to our short fleet for 2014. A key network management challenge in 2014 will be to attempt to improve load factor and revenue per seat in the context of the capacity increase announced by our principal competitor, Ryanair, at Dublin, Knock and Shannon airports (some of which will be deployed on routes which Aer Lingus also operates).

Our long haul capacity will expand by approximately 24% in ASK terms as we launch new direct services from Dublin to San Francisco and Toronto in April 2013 and expand existing services from Shannon to New York and Boston.

9. Effective fleet management

2013 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 flexibility to expand or reduce the fleet in response to the evolving demand environment.

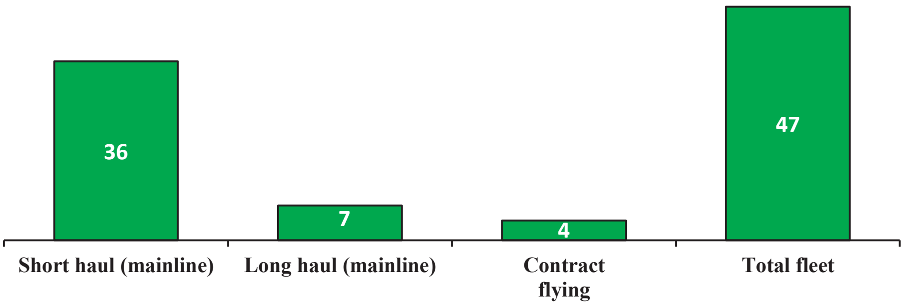
***2013 business outcomes and relevant performance indicators*:** Our young fleet age continues to help us maintain a competitive unit cost position. At 31 December 2013, the average age of the Aer Lingus fleet was 8.2 years.

A summary of our fleet as at 31 December 2013 was:

Fleet as at 31 December 2013

Aircraft type	Owned	Finance lease	Operating lease	Total
A319	-	-	4	**4**
A320	2	14	17	**33**
A321	1	2	-	**3**
A330-200	2	1	-	**3**
A330-300	1	3	-	**4**
Total	**6**	**20**	**21**	**47**

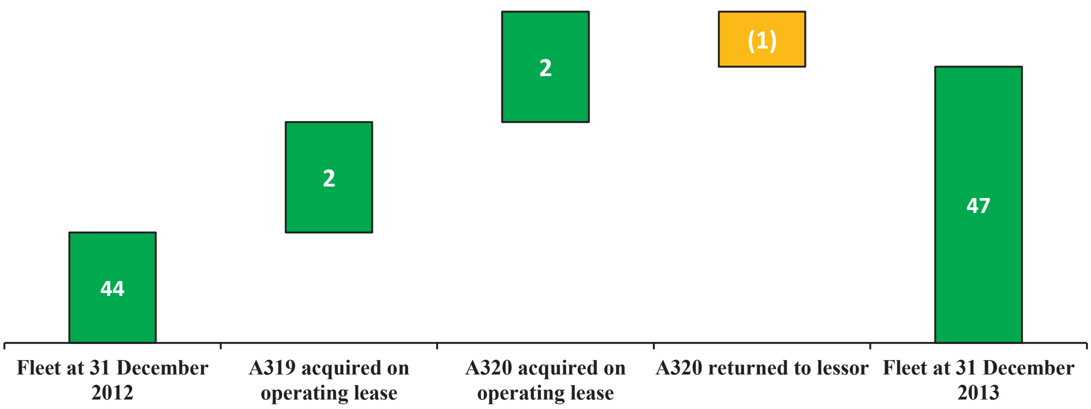
Fleet summary at 31 December 2013



Note: One of our mainline long haul aircraft is deployed on a damp lease arrangement during the Winter season with the tour operator Novair. The agreement with Novair, which started in December 2013, covers a three year period.

Specific movements in the mainline Aer Lingus fleet during 2013 are as follows:

Summary of fleet changes - 2013



In addition to the above movements, we also dry leased an A320 aircraft on a short term basis from 31 May 2013 to 1 October 2013 to provide operational cover for our Summer 2013 scheduled services.

Aer Lingus and Airbus are discussing revised delivery dates for the nine A350XWB aircraft that we have on order as the original delivery dates cannot be achieved. We still expect to take nine aircraft which will be a mixture of A350-900 and A350-900R variants. Deliveries are likely to be over the period 2018 to 2020 and will replace existing A330 aircraft in our fleet. Further details will be announced once final agreements are reached.

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

2014 priority: Our priority in 2014 will be to conclude the A350 negotiations and to determine how we manage the rollover of our existing A330 long haul fleet over time. In 2014, we will also take delivery of three Boeing 757 aircraft to facilitate additional long haul flying.

Also, at present, we do not have an order for short haul aircraft. As an alternative to such an order, we are currently engaged in an internal analysis to determine whether an investment to increase the ownership proportion of our currently leased aircraft could drive higher returns from our asset base than is currently the case.

10. Drive further improvements in customer service and satisfaction levels

2013 priority: Continue productivity, process improvement and innovation in our operations for the mutual benefit of our customers and our operating result.

2013 business outcome and relevant key performance indicators: In 2013, we drove improvements in our business operations and also introduced a number of new initiatives aimed at ensuring our customers have choice, flexibility and most importantly a satisfactory travel experience.

A key performance measure we use to assess our operations is On-Time Performance ("OTP"). In 2013, we achieved an OTP of 83%. This was lower than the 88% reported for 2012. Our internal analysis indicates that approximately half of all delays are attributable to factors that are outside of our control, such as weather events and congestion at the main, central airports we serve. In 2013, we experienced a number of weather related events that negatively impacted OTP, particularly towards the end of the year. In all such cases, we strived to ensure passenger disruption was minimised and any such impacted passengers were appropriately accommodated. Our priority for 2014 is to get overall OTP at least back to 2012 levels.

According to UK Civil Aviation Authority ('CAA') punctuality statistics prepared for 10 UK airports (including London Heathrow, Birmingham and London Gatwick), Aer Lingus ranks ahead of other carriers such as Ryanair and British Airways in respect of OTP on services to/from UK airports.

UK CAA Punctuality Statistics (Nov 2012 to Oct 2013)	Aer Lingus	Ryanair	British Airways
Departures < 15 minutes	88%	86%	75%
Arrivals < 15 minutes	83%	82%	70%

During 2013, ground operations related to the Aer Lingus Regional service moved from Terminal 1 to Terminal 2 in Dublin Airport which represented a significant improvement for passengers on direct Regional services and also those transferring onto transatlantic and other flights within the Aer Lingus network.

In April 2013, we launched a new service that allows passengers travelling on early morning flights to check in luggage the night before. This is particularly convenient for families or large groups. The service provides us with productivity benefits as our late evening check-in shifts are effectively utilised in reducing demand on the extremely busy early morning check in facilities.

In 2013, we also significantly increased the role that social media plays in terms of interaction with our customers. Our social media presence is growing significantly and increasing numbers of our passengers are now choosing to contact Aer Lingus via our social digital channels. This is proving to be a convenient and efficient way for us to speak to our customers and to help them in their travel experience. It is also providing us with an effective marketing tool to communicate with repeat and frequent customers on sales, special offers etc.

2014 priority: We will continue in 2014 to achieve further improvements in our key customer service metrics. This will require us to address the challenges presented by those aspects of on-time performance and customer service features which are not always within our control but nonetheless for which our customers hold us responsible. We will continue to invest in the quality of our service offering as part of CORE. We intend to launch a re-designed website and a renewed mobile app in Q3 2014, provide an enhanced passenger experience with our move to London Heathrow Terminal 2 in July 2014 and upgrade our existing long haul business class seats to offer fully "lie flat" capability by Q1 2015.

11. Address pension funding issues

2013 priority: Definitively address pension funding issues relating the IASS and the Pilots' Scheme so that solutions may be agreed and implemented that balance the interests of all parties, including shareholders, employees and customers.

2013 business outcome and key performance indicators: Regrettably, we did not achieve as much progress as we had hoped at the start of 2013.

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

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

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

The key elements of the IASS Proposal are:

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

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

Specifically, it is expected that the IASS Proposal would:

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

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

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

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

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

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

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

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

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

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

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

Aer Lingus Limited notes the recent service of notice of industrial action by the SIPTU trade union which was subsequently prevented by a High Court injunction. The uncertainty caused by this notice caused significant commercial damage to Aer Lingus Limited and inconvenienced passengers due to re-scheduled flights. Any renewed prospect of industrial action is not helpful to making progress towards reaching a solution which balances the interests of all parties.

On 3 March 2014, a joint statement was issued by the Department of Transport, Tourism and Sport, the Department of Jobs, Enterprise and Innovation, IBEC and ICTU proposing the formation of an Expert Panel to engage in discussions with relevant stakeholders regarding the IASS. The statement describes the purpose of the Expert Panel as the carrying out of an urgent investigation as to how a final resolution of the industrial relations issues relating to the IASS can be secured. Aer Lingus Limited believes that the Interim Recommendation and Final Recommendation remain the only basis upon which a fair and balanced outcome can be achieved and is willing to engage with the Expert Panel to facilitate their full and speedy implementation. To that end, Aer Lingus Limited will engage constructively with the Expert Panel on a voluntary and non-binding basis.

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

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

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

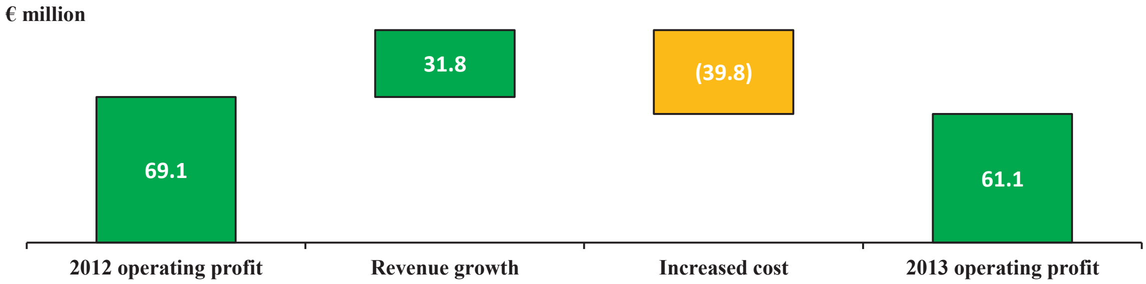
Notwithstanding Aer Lingus Limited's involvement in discussions to resolve the funding issues in the Pilots' Scheme, it remains Aer Lingus Limited's position, supported by firm legal advice, that it has no legal or constructive obligation in respect of the Pilots' Scheme, other than to continue to pay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

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

2013 Financial Review

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

Year on year operating profit bridge (€million):



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

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

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

Explanatory note on comparative figures and operating statistics
Please note the following with regard to the financial results for 2013 compared to 2012:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary operating costs

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

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

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

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

Other Operating Costs

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

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

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

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

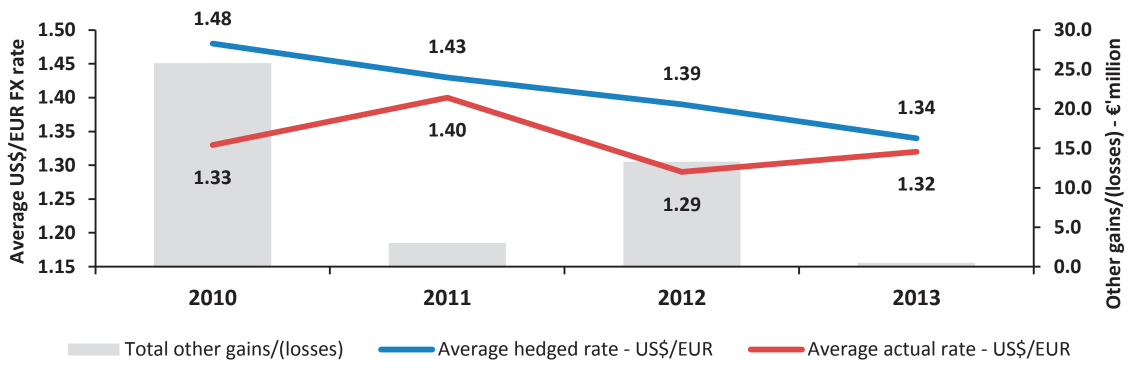
(i) Changes in our operating leased fleet: In 2012, we acquired two A319 aircraft on operating lease to replace two A320 aircraft returned to lessors. Also, in H1 2013, we introduced two further A319 aircraft, one of which replaced an A320 aircraft returned to the lessor and the second which was redeployed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

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

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

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

	2010	2011	2012	2013
Other gains/(losses) - €'million	25.8	3.0	13.3	0.6



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

Net exceptional items
2013 net exceptional costs were €17.4 million comprising:

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

Refer to Note 9 in the financial statements for more detail.

Finance income and expense
Net finance expense for 2013 was €4.2 million (2012: expense of €2.0 million). Finance expense of €15.1 million decreased by €1.6 million due to declining finance lease obligations as scheduled debt repayments continued during the year. Interest rates applicable to finance leases remained static in the year. Finance income of €10.8 million decreased by €3.9 million mainly reflecting the impact of lower deposit interest rates and a lower average level of gross cash held. Interest expense on post employment benefit obligations is included within finance expense and has remained relatively static year-on-year. The net interest charge on post employment benefit obligations reflects the change in basis of calculation arising from the adoption of IAS 19R from 1 January 2013 (see basis of preparation Note – 2.1). The comparative has been restated to reflect this impact.

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

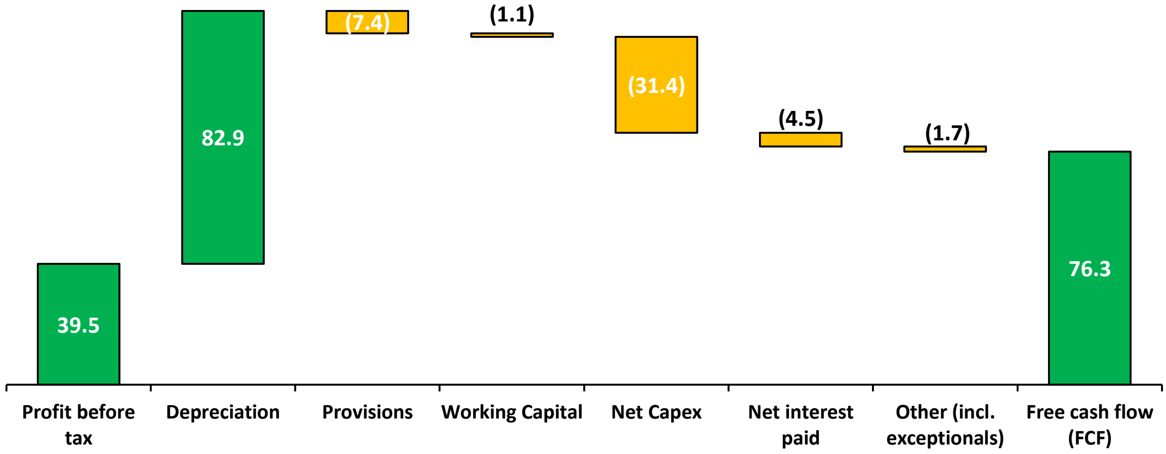
Tax charge
The total tax charge in the current year of €5.4 million primarily relates to movements in deferred tax with minimal cash taxes payable. The effective rate of 13.8% is influenced by permanent disallowable items.

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

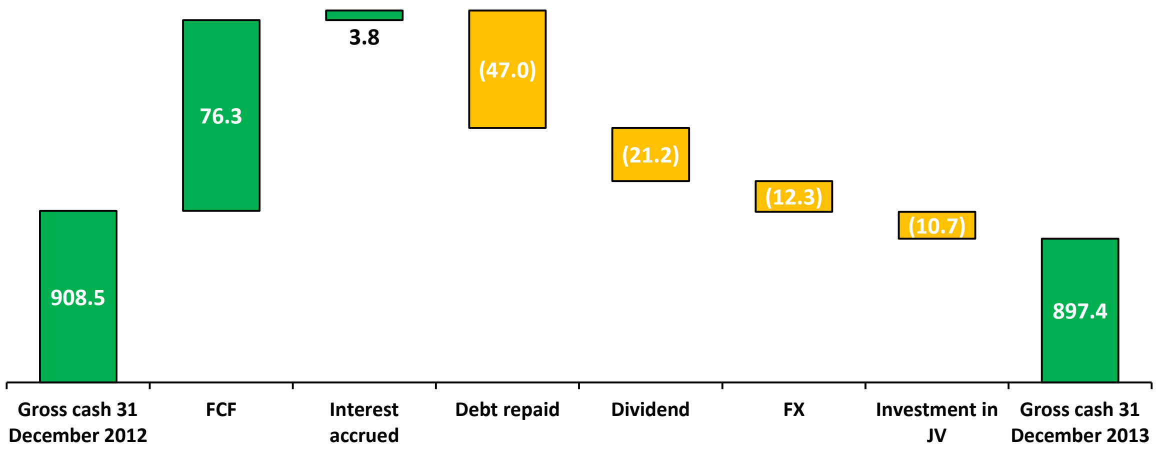
Cash flow, cash and debt

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

Reconciliation of profit before tax to free cash flow (€million):



Significant cash flow movements in 2013 are as follows (€million):



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

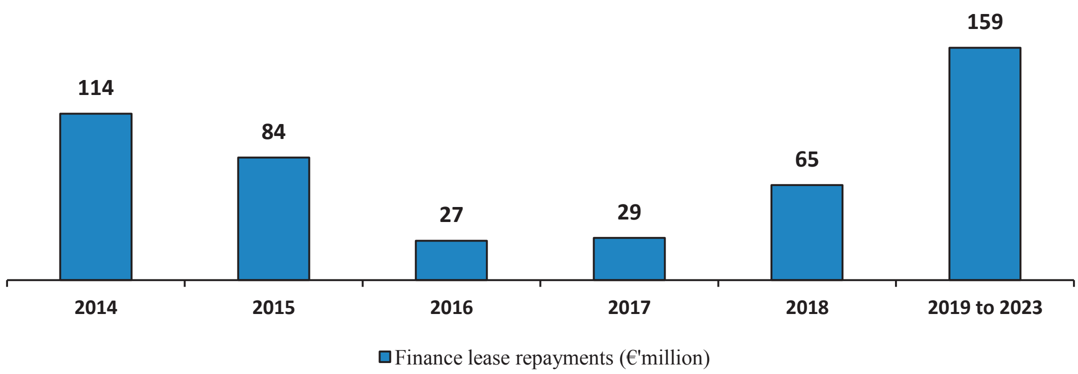
The Group expects capex outflows of approximately €60 million in 2014 due to higher spend on IT projects in the year.

Significant movements in gross debt in 2013 are as follows (€million):

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

Debt repayment schedule

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



Fuel, currency and emissions hedging

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

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

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

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

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

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

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

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

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

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

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

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

[1] The 2012 result is restated for the effect of applying IAS19R (see basis of preparation Note – 2.1). The impact is a reduction in profit of €175,000.

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

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

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

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

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

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

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

The following significant balance sheet movements also occurred in 2013:

- Net capital expenditure of €31.4 million, largely driven by the acquisition of aircraft engines, capitalised aircraft maintenance, facility upgrades and other equipment costs. The depreciation charge in the year more than offsets this expenditure, leading to a reduction in the carrying amount of the Group's fixed assets.
- Provisions decreased by €8.1 million, mainly due to the settlement in the year of restructuring obligations existing at 2012 year end.
- Trade receivables increased by €17.0 million mainly due to increases in prepayments to suppliers linked to changes in commercial terms agreed with these suppliers.
- Finance lease payables reduced by €54.0 million following scheduled repayments in the year and the impact of favourable FX movements.
- Post retirement benefit obligations reduced by €6.6 million, mainly due to favourable movements in actuarial assumptions regarding the rates at which the liabilities are discounted and demographic factors.
- The Group made further investment in a leasing company in which it holds a 33% stake ("the Joint Venture"). At 31 December 2013, the carrying value of the Group's interest in the Joint Venture was €13.9 million. Refer to Note 16 for further details.
- The net derivative hedging balance sheet position improved by €3.4 million year on year. The market value of the outstanding fuel derivatives contracts has risen due to further fuel price increases in comparison to 2012, partially offset by a reduction in the value of foreign exchange contracts, due to unfavourable movements in the euro/US$ exchange rate.
- Retained earnings (and therefore distributable reserves) has increased by an additional €500 million over retained profit for the year following the order by the High Court on 15 March 2013 confirming a corresponding reduction in certain of the other reserves of Aer Lingus Group plc.

Quarterly Trading Review of 2013

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

Summary of 2013 by quarter

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

Key performance indicators					
Passengers	1,905	2,665	2,913	2,142	9,625
Average fare yield per passenger	110.13	123.28	134.28	112.56	121.62
Load factor	71.4%	78.4%	85.5%	75.1%	78.4%

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

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

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

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

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

Q3 2013

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

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

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

Q4 2013

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

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

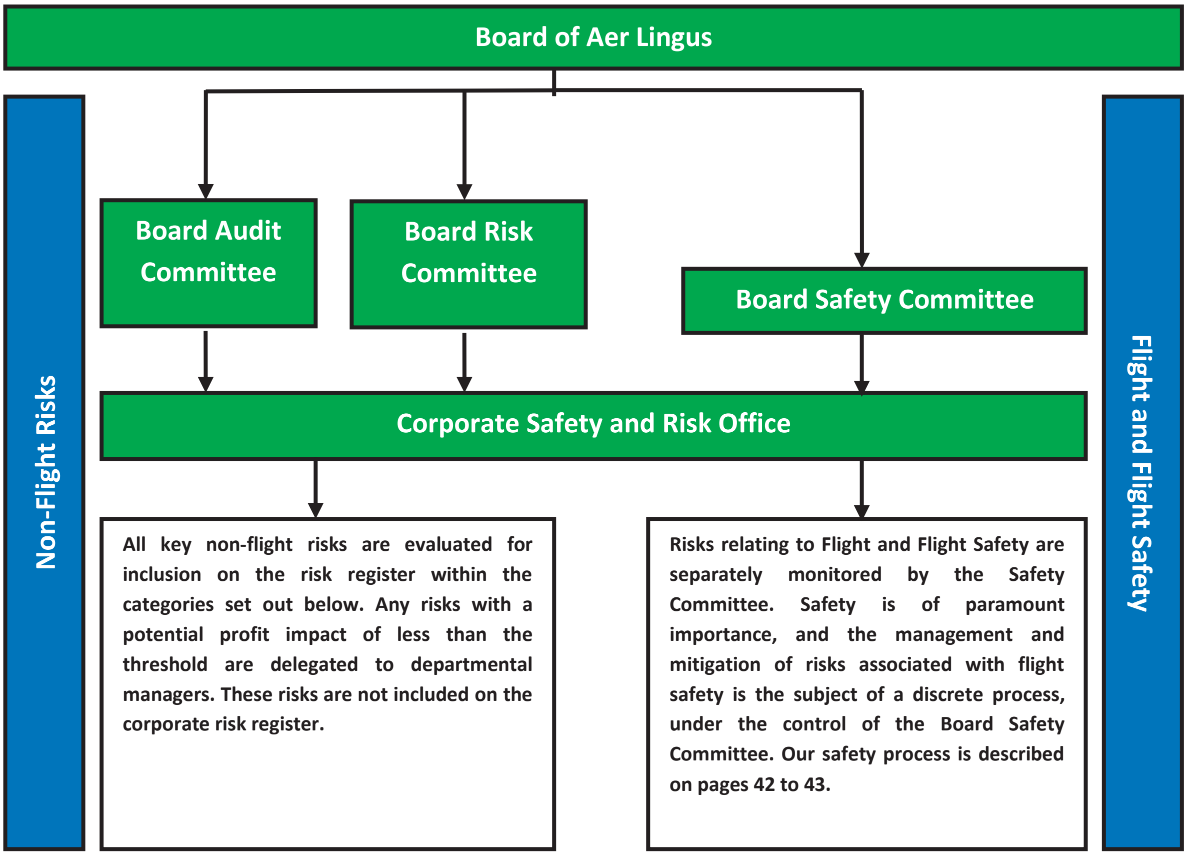
Retail revenue declined 0.8% to €38.4 million driven by the lower year on year passenger volumes while other revenue increased €8.9 million to €10.1 million as a result of additional revenue from our contract flying operations. Cargo revenue was 5.8% lower.

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

Principal Risks and Uncertainties

The Board of Aer Lingus is responsible for the Group's risk management systems, which are designed to identify, manage and mitigate potential material risks to flight safety and the Group's strategic and business objectives.

The Risk framework adopted by Aer Lingus can be summarised as follows:



The key non-flight risks are classified into the following categories:

NON-FLIGHT RISK CATEGORIES			
Strategic	Financial	Operational	Compliance

The Corporate risk management process seeks to mitigate the non-flight risks faced by the business and is designed to ensure that senior management are focused on the material risks faced by the Group. After identification, each such risk is assessed in terms of its impact on the business should it occur, and the likelihood of occurrence. A risk management plan is then developed, setting out the controls in place and the additional mitigating actions to be applied. Responsibility for each such plan is assigned to a member of the Executive. This process is iterative and refreshed periodically. The effectiveness and design of these controls are rated and an assessment is made of the residual risk that remains after the mitigating actions have been taken. The management of each major risk is subject to review on a quarterly basis and progress is reported to the Board Risk Committee. The Executive Management team formally reassesses the corporate risk register on a quarterly basis to ensure that new and emerging risks are appropriately captured and evaluated, and that legacy issues which are no longer regarded as significant are removed. The principal corporate, non-flight risks facing the Group are described below. This is not intended to be an exhaustive analysis of the risks which may arise in the ordinary course of business or otherwise. A specific identifier is attached to each risk indicating whether, in the Board's opinion, the risk is increasing, reducing or remains broadly unchanged compared to 2012.

Increased	Unchanged	Reduced

STRATEGIC			
Risk	**Impact**	**Current mitigation**	**Change from 2012**
Competition	We operate in an intensely competitive market across all our main route groups. Within our home market we continue to face strong competition from Europe's lowest cost operator, and in other markets we face challenges from both incumbent domestic operators and new, pan-European low-cost-carriers. The North Atlantic market generates a significant portion of our overall revenue and is subject to ongoing competitive challenges. Any failure to maintain our ability to compete so as to maintain and grow our market share in key markets, may result in erosion of our revenue and margins.	As well as a continued focus on cost control through initiatives such as the recently launched CORE programme, and the development of enhanced operational agility, the Group monitors the schedules and intentions of its current and likely future competitors. In the event that future competition rendered any of its routes uneconomic, the Group would consider realignment of capacity for further cost actions to maintain profitability.	
Strategic Alliances	Aer Lingus is not a member of any of the three global alliances but nonetheless derives substantial passenger revenues from its relationships with other airlines. These airlines are typically members of one of those three global alliances. The revenues make a significant material contribution to the Group's ability to offset fixed costs. If at some future time these alliances were to restrict such relationships to their own members, or if the relationships were to be discontinued for other reasons, Aer Lingus could face the loss of significant revenue and profit.	Aer Lingus invests significant management time and effort in fostering existing relationships and building new relationships that are consistent with existing partnerships. In the event that the alliances were to become "exclusive" in the future, Aer Lingus could seek membership of one of them, but would need to weigh the revenue benefits that would accrue against the costs of membership.	
Economic Conditions	Our revenues and passenger numbers are closely linked to economic conditions in the markets in which we operate. Continued weakness in the Irish and UK markets in particular, but also in the continental European or North American economies, can have a significant negative impact on passenger volumes and fares. The effect would be compounded by the Group's high fixed cost base. Sustained weakness in these markets could damage the Group's profitability, cash flows and ability to grow to the possible detriment of the Group's attractiveness as an investment for shareholders.	Management reviews booking patterns and revenue forecasts on a regular basis and takes action when necessary to maintain an appropriate match between capacity and demand in the Group's markets. The Group attempts to compensate for weakness in the core Irish market by stimulating and competing for inbound traffic and by using its relationships with other airlines, including Aer Lingus Regional, to flow transfer passengers through its network.	

FINANCIAL			
Risk	**Impact**	**Current mitigation**	**Change from 2012**
Cost & Revenue Management	Failure to enforce rigorous control over all of our costs, and to maximise opportunities to generate revenue through effective yield management and targeted ancillary sales promotions, will adversely impact on our margins. The core Irish market is very price sensitive, with a substantial majority of passengers travelling for leisure or family reasons. Fuel and airport charges represented some 48.1% of the Group's total costs in 2013. Volatility in the price of jet fuel can have a significant negative impact on costs and airport charges are largely outside the Group's control. The Group is particularly vulnerable to increases in charges at Dublin, which is its hub airport.	The Group employs a disciplined approach to ongoing cost control, waste eradication and budgetary policy. The Group seeks to mitigate pressure on its margins by implementing fuel surcharges on long haul flights, using hedging techniques to reduce the volatility in fuel prices and by actively managing those costs over which the Group has more control through a group-wide procurement function. Routes, projects or other initiatives that cannot conform with strict cost containment requirements may be subject to curtailment or cancellation in order to protect margins.	

	The nature of our markets can make it very difficult to pass cost increases on to passengers without an adverse impact on traffic volumes. Therefore our ability to compete for new business is directly related to our ability to promote a cost effective, high quality product in a price sensitive market.	In order to respond effectively and at the same time exploit the full potential of our business model, we must maintain our differentiation and we need a cost base which enables us to continue to be price competitive. However, our progress on these matters was inhibited in 2013 by the inability to implement the Labour Court recommendations on pensions. Against that background, we have concluded that we cannot afford any further delays and we must press ahead to take advantage of the opportunities and to address the challenges which face us. To that end, we recently launched the CORE programme with the objective of ensuring that we can grow profitability for the medium term. This will require us to deliver attractive and differentiated products to our customers that represent compelling value for money. CORE is a two year programme and will target €30 million of savings by the end of 2015. The programme will focus on cost and business optimisation; revenue excellence and our people.
Pension	**IASS** The great majority of Aer Lingus 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 2013, this deficit was estimated by the scheme actuary to be some €715 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. Aer Lingus strongly believes 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 2013, current employees and former employees who are not yet in receipt of a pension (deferred members) would receive a significantly smaller pension when they retire.	**IASS** Aer Lingus and Aer Lingus Limited 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 is seeking to achieve this in a manner that reflects its firm view that it has no legal obligation for the deficit in the scheme. On 24 May 2013, the Labour Court published its final recommendation ("the Recommendation") regarding the funding issues in the IASS. The key elements of the Recommendation are as follows: • The proposed solution should attempt to achieve the target levels of benefit set out in the Labour Court Interim Recommendation dated 2 January 2013 • Based on agreed upon assumptions, a one-off lump sum of €110 million should be contributed by Aer Lingus Limited to seek to achieve the target levels of benefit for the Company's employees who are members of the IASS (this would be contributed to a new defined contribution scheme); • The payment of the April 2013 annual increment should be delayed until September 2013. Aer Lingus Limited has paid the April 2013 increment with effect from September 2013. Following the payment of this increment, annual increments should be replaced by stabilisation payments to employees until April 2017. The Board of Aer Lingus believes that the Recommendation represents a compromise that can form the basis upon which a solution can be implemented that balances the interests of all parties, including shareholders, employees and customers.

The Board believes that the proposed solutions in the Recommendation would (i) significantly improve the current and future pension prospects of employees who are members of the IASS, thereby contributing to a positive working environment that is in the interests of all stakeholders; (ii) provide Aer Lingus Limited with cost predictability and certainty over the period to 2017 and a basis for industrial relations stability; and (iii) address the risks arising from the potential for serious operational disruption through industrial action and the potential for protracted litigation in relation to pension matters.

If the agreements and approvals required can be achieved, Aer Lingus Limited would implement the proposed solution set out in the Recommendation which includes; a one-off contribution of €110 million to a new defined contribution scheme for existing employees; and, cost stabilisation payments in the period up to 2017 which would replace existing annual increments, so delivering cost predictability and certainty for Aer Lingus Limited in that period. Aer Lingus Limited would also make a one-off contribution of €30 million to the new defined contribution scheme in respect of former employees who are deferred members of the IASS.

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

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

Assuming that the above outlined agreements are concluded, Aer Lingus Group plc will then issue a circular to its shareholders setting out full details of the proposed solution and convene an extraordinary general meeting to seek approval from shareholders. While Aer Lingus Limited is committed to seeking a solution in a way that balances the interests of all parties, including shareholders and employees, the process is complex and there is no certainty that agreement can be reached between the various parties.

Pilots' Scheme

Aer Lingus pilots are members of the Irish Airlines (Pilots) Superannuation Scheme ("the Pilots' Scheme"). On 27 March 2013 the Pilots' Scheme was estimated by the scheme actuary to have a minimum funding standard deficit of approximately €172 million.

Pilots' Scheme

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 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.	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' Scheme, other than to continue to pay the fixed rate contributions as set out in the trust deeds of these schemes.	
Banking	The Group has substantial cash, cash equivalents, deposits and debt securities totalling €897.4 million at 31 December 2013. Of this amount, €28.3 million has been placed since 2008 on long term deposits with various Irish banks. The balance of the funds are deposited across a range of banks with deposit limits and maturities linked to credit rating. The bulk of the money is placed with banks in the UK, US, the Netherlands, France, Australia, Germany, Canada, Denmark, Sweden, China, Ireland and Norway. The deposits are broadly split between US$ (37%) and euro (63%). Any failure of a bank holding deposits is likely to result in significant loss to the Group. In addition, any restructuring of the Eurozone or its membership could result in significant loss to the Group if it caused the failure of one of the counterparty banks, or result in the creation of a foreign exchange exposure which does not currently exist. Any such restructuring, if it were to occur, would also be likely to have a significant adverse impact on consumer confidence and therefore on the Group's bookings and revenues.	The Group actively monitors its counterparty exposures and moves funds if credit ratings fall to an unacceptable level. The Group does, however, remain exposed to systematic risks affecting the eurozone and its members. As at 31 December 2013, deposits are allocated across a wide portfolio of banks. 97% of all cash, cash equivalents and deposits are deposited with banks incorporated in AAA rated and / or AA rated sovereign jurisdictions (as indicated by Moody's and Standard & Poor's rating agencies). 3% of all cash is deposited with banks incorporated in Ireland, linked to long-term deposits connected to debt. As at 31 December 2013 Aer Lingus had deposits or investments with 34 counterparties in order to reduce concentration risk. Economic conditions in the Eurozone remain challenging but indicators have shown there are signs of stabilisation and improvement in the wider European banking sector. The Group however continues to closely monitor ratings and outlook.	
Financial Risk Factors (Market risk, credit risk, liquidity)	Details of the principal financial risks to which the Group is exposed, and the approach to mitigating them, are set out in Note 3 to the financial statements		

OPERATIONAL

Risk	Impact	Current mitigation	Change from 2012
Fleet Programme	Maintaining the correct fleet specification is critical to both the continued success of the business and to the generation of the required level of financial return. Failure to prepare for and appropriately adopt to new technologies may result in a competitive disadvantage as new variants, more efficient engines and other cost saving measures are brought to market. On the other hand, the cost of investment in new technology may be incommensurate with the benefits actually generated and this may reduce financial returns for the business over time. The Group seeks to maintain a balance between owned and leased aircraft to give it the flexibility to reduce capacity at short notice by handing back leased aircraft. Maintaining this flexibility can result in higher operating costs.	Commercial operations, network planning, fleet management and fleet supplier management are integrated under the Chief Commercial Officer to give the best overview of likely fleet requirements. The Group also undertakes an ongoing review, in terms of production and possible delays, of the ordered aircraft programme. The Group regularly prepares and updates 5 year plans to assist it in managing its fleet and order book. The Group maintains significant cash balances, partly in response to its aircraft order book. The Group also considers whether investment in new aircraft technology will be reflected in the level of financial return which is likely to be generated. The purchase of second hand aircraft or older technologies could actually result in higher financial returns for the business over time. The Group undertakes significant modelling and review prior to aircraft and aircraft related purchase decisions.	

	In addition, the Group has commitments to purchase new aircraft over the period to 2019. There is a risk that these aircraft may not meet the Group's needs if market conditions or the Group's business changes in the period up to delivery. There is also the risk that the Group may not be able to raise finance to fund these purchases in the future and have to rely on its own resources.		
IT Environment	The Group is dependent on IT systems for most of its primary business processes. The performance and reliability of these systems is critical to our ability to operate and compete effectively. Any failure of a critical IT system or inability of a software supplier to support a critical IT system for example in the areas of passenger bookings and yield management could adversely impact revenue generation and financial performance. Furthermore, any failure in our protection of critical, sensitive or personal data contained within our systems could adversely affect our reputation, operational and financial performance. A key element of the CORE programme is investment in new state of the art technology such as the replacement of the current passenger reservation system. This will result in approximately €20 million additional capex spend and €5 million additional operating costs in 2014. This investment programme will require effective implementation in order to be successful and for the expected benefits to be realised.	The Group has put in place and continues to invest in, technology security initiatives and disaster recovery and business continuity arrangements to mitigate the risk of a critical system failure. Project teams have been established to manage the IT upgrades and third party support will be sought where Aer Lingus lacks the necessary skills or resources, including in relation to project and risk management. All of the Group's critical IT infrastructure and information policy is subject to rigorous security testing to ensure we adhere to the highest standards in data protection. The CORE programme will involve further upgrades in the Group's technology and should enable the continued differentiation of the Group's passenger proposition. The Group's project management office (PMO) will closely monitor and support the implementation of key IT projects related to the CORE programme.	
Industrial Relations	Aer Lingus has a largely unionised workforce and collective bargaining takes place on a regular basis across a range of issues including but not limited to: pay, rosters and pensions. Aer Lingus needs staff and union support to move the business forward. A breakdown in the bargaining process could have the potential to result in industrial action, disrupting operations and adversely affecting business performance. Similar issues exist within several of our key third party service providers, in particular within the airport and Air Traffic Management structures. Any action taken by a third party that affects our ability to deliver our schedule could impact on our reputation, operational and financial performance.	The Group seeks to maintain open and constructive relationships with staff representatives, while recognising that it may from time to time prove difficult to reach agreement on certain issues, including in relation to the pension matters generally.	
People	Our ability to attract, retain and adequately motivate our people is key to our continued success. Any failure to manage the needs of the business and the expectations of our employees could result in a loss of knowledge and experience, and a failure to motivate our staff and provide a healthy working environment could result in low morale and associated risks of poor performance.	The Group actively engages with all of its staff through regular communications, surveys and feedback workshops. A corporate talent development programme has been established and recurrent continual professional development is a core strategy in our people management policy.	

Supply Chain	The Group partners with a range of third party suppliers for core business requirements. Failure to properly manage these relationships could result in inefficiencies, disruption to services, loss of revenues and cost increases. Failure to renew or negotiate contracts on favourable terms, loss of key suppliers or inability to procure necessary services could adversely impact on our reputation, operational or financial performance.	The Group has established a centralised Strategic Sourcing function that is responsible for oversight and management of key relationships and for the implementation of corporate procurement policy across the full range of business needs.	
Organisational capacity	The Group is engaged in a change programme to create a flexible, entrepreneurial company with a competitive cost base. The extent of change that is required is significant and a challenge for the Group's managers and staff at all levels. The Group is reliant on third party support for certain important initiatives.	Initiatives have been taken to improve the engagement of staff and assist managers to improve their own performance. The change programme receives the close attention of Executive Management and their direct reports. The project management office (PMO) continues to monitor the progress of important projects being implemented in the business including IT developments and the CORE programme.	
Operational disruption	Long term disruption, or the inability to recover promptly from short term disruptions, can have a material adverse impact on the Group's business in terms of lost bookings and revenue, additional cost and damaged customer confidence	The Group remains exposed to potential future events, the nature and timing of which may be outside its control and which can occur at short notice.	

COMPLIANCE			
Risk	**Impact**	**Current mitigation**	**Change from 2012**
Regulatory Environment	Aer Lingus operates in a highly regulated business environment, where safety, security, consumer and environmental legislation can impose constraints on our ability to operate.	The Group actively participates in a range of industry regulatory forums, working closely with regulators both in Ireland and within our key markets, to ensure we remain fully aware of pending regulatory changes and are best placed to exert influence to the greatest extent possible. Through our membership of the industry group IATA we are an active participant in the continuous engagement process with the European Commission, Parliament and European Aviation Safety Agency.	

Board of Directors

Colm Barrington (Chairman)
Colm Barrington was appointed to the Board in September 2008 and was appointed Chairman of the Board in October 2008.

He is Chief Executive Officer and a Director of Fly Leasing Limited, the NYSE listed, Irish based aircraft leasing company. He was Managing Director of Babcock & Brown in Dublin from 1994 to 2007, specialising in aircraft lease management and financing. Prior to that he held a number of senior executive management positions in GPA Group plc from 1979 to 1993 when he was appointed president of GE Capital Aviation Services Limited following its acquisition of GPA.

Colm's many years of experience in executive leadership positions in the aircraft leasing businesses of GPA, GE, Babcock & Brown and Fly Leasing, have provided him with a range of knowledge, skills and expertise of direct relevance to his roles as Director and Chairman of the Board of Aer Lingus and as a member of the Remuneration, Appointments and Safety Committees.

Christoph Mueller (Chief Executive Officer)
Christoph Mueller was appointed Chief Executive Officer and a member of the Board on 14 September 2009. Prior to this he was aviation Director at TUI Travel plc. He has extensive experience within the aviation industry, having held senior executive positions in Daimler Benz Aerospace, Lufthansa AG, the Sabena Group, DHL and Deutsche Post AG prior to his roles at TUI Travel plc. He serves as a Non-Executive board member of Tourism Ireland. Christoph was appointed as chairman of the board of An Post in March 2013.

Christoph's executive level experience within the aviation industry has equipped him with the ideal skills and expertise for the fulfillment of his role as Aer Lingus Chief Executive Officer and Executive Director. Christoph has served as a member of the Safety Committee since August 2010.

Andrew Macfarlane (Chief Financial Officer)
Andrew Macfarlane was appointed Chief Financial Officer and a member of the Board on 3 October 2010. He is a Fellow of the Institute of Chartered Accountants in England and Wales and holds an MA in Economics from Selwyn College, Cambridge. Andrew originally joined Aer Lingus as interim chief financial officer on 21 December 2009. Prior to his appointment he most recently served as chief financial officer of Rentokil Initial plc and his career has covered the leisure, business services, real estate and accounting sectors. His early career was with Ernst & Young, where he spent 12 years, reaching the position of corporate finance partner in 1987. In addition he has held the position of chief financial officer at Land Securities Group plc and Holiday Inn, and also served as a Non-Executive Director of Invensys plc. Andrew's prior experience as chief financial officer in a number of listed entities has equipped him with the necessary skills and expertise for the roles of Chief Financial Officer and Executive Director. On 25 March 2014 Andrew informed the Board that he will step down from his position as Chief Financial Officer and Executive Director to take up a new role in the Middle East outside of the aviation industry. Andrew will remain in his current role for up to 6 months to facilitate the transition to a new Chief Financial Officer.

David Begg
David Begg was appointed as a Non-Executive Director effective on 28 January 2011. From January 2008 - January 2011 he served as an ESOT nominee on the Board. He served as the general secretary of the Irish Congress of Trade Unions since 2001. For five years prior to that he was Chief Executive of Concern Worldwide, an international humanitarian organisation working in 27 countries and with offices in Dublin, London, Belfast, New York and Chicago. He is also a governor of the Irish Times Trust and a member of the National Economic and Social Council. He also sits on the executive committee of the European Trade Union Confederation.

David has particular skills, expertise and experience in the area of industrial relations together with executive leadership skills and has significantly contributed to the Board in these and in other areas since his initial appointment in January 2008.

David has served as a member of the Safety and Risk Committees since January 2009.

Montie Brewer
Montie Brewer was appointed to the Board on 25 January 2010. He is an airline veteran and a recognised industry innovator in airline pricing, sales and distribution strategies. Most recently he was president and Chief Executive Officer of Air Canada. He is currently a non-Executive Director of each of Allegiant Travel Company, recognised as one of North America's most innovative airline and travel groups, and Swiss International Airlines AG. He holds a BA in Business Administration & Transportation Management from Michigan State University.

Montie's direct executive level experience in the aviation industry enables him to bring airline specific skills and expertise to bear on the Board of Aer Lingus.

Montie has served as a member of the Risk Committee since June 2010 and as a member of the Audit Committee since August 2013.

Laurence Crowley
Laurence Crowley was appointed to the Board on 9 January 2009 and is the Senior Independent Director on the Board. He is chairman of the Middletown Centre for Autism, Ecocem Limited, Realex Payments and the Economic and Social Research Institute. He is also a member of the board of An Bord Gáis Eireann, the Gate Theatre and a number of other companies. He previously served as governor of the Bank of Ireland (where he completed his term in 2005) and as Executive Chairman of the Michael Smurfit Graduate School of Business at University College Dublin. He is also a past Director of Elan Corporation. Previously, he was a partner in KPMG Stokes Kennedy Crowley Chartered Accountants, where he specialised in corporate restructuring and insolvency. Laurence holds a Bachelor of Commerce degree from University College Dublin and is a fellow of the Institute of Chartered Accountants in Ireland. In 2004, he was conferred with an honorary Doctorate in Laws by the National University of Ireland. In 2009 he was awarded an honorary CBE by Queen Elizabeth II for services to UK-Irish relations.

Laurence has vast experience as both a chartered accountant and board member. This experience enables him to make a significant contribution to the Board as both Non-Executive Director and Senior Independent Director. His accounting expertise is of particular relevance to his membership of the Audit Committee.

Laurence has served as chairman of the Appointments Committee since January 2009. He has also served as a member of the Audit Committee since January 2009 and was chairman of that committee from December 2010 to August 2013.

John Hartnett
John Hartnett was appointed to the Board with effect from 1 January 2014 and is a senior technology executive & investor based in Silicon Valley, California. A native of Limerick, John is founder and Chief Executive Officer of SVG Partners LLC, a Silicon Valley investment & advisory firm. He is also founder and president of the Irish Technology Leadership Group (ITLG), a network of global Irish technology leaders whose main focus is to foster the links between Ireland and Silicon Valley in the areas of innovation, investment, education and entrepreneurship. He currently serves on the board of University of Limerick Foundation and also serves as Executive Chairman of Daybreak Information Technologies, chairman of Sisaf Limited and Director of Mcor Technologies. He served on Secretary of State Hillary Clinton's Northern Ireland Working Committee 2009 - 2011. He is a member of the Irish Government's Global Irish Network advisory group and the Global Irish Economic Forum. John has over 25 years of executive level experience leading global sales, marketing, and operations. Previously he was Chief Executive Officer at G24 Innovations, a leading thin film solar company. He held the position of senior vice president of global markets at Palm, Inc., (Nasdaq: PALM), where he was responsible for worldwide sales, service and support. At Metacreations, (Nasdaq: MCRE), he was senior vice president of worldwide marketing and operations. He has also held senior management positions at Claris/Apple, Teradata, Digital Equipment (DEC) and Wang Computers.

John's extensive executive level experience in the information technology sector enables him to bring significant insight to the Board in that regard.

John has served as a member of the Appointments Committee since January 2014.

Nigel Northridge
Nigel Northridge was appointed to the Board with effect from 1 January 2014. Nigel is from Belfast and started his career with Gallaher Limited. Nigel worked for Gallaher Group from 1976 to 2007 where he was promoted to group Chief Executive Officer in 2000. Nigel also spent a year with Japan Tobacco International in 2007-2008 to help ensure the successful integration of Gallaher following its acquisition. He is Non-Executive Chairman of the board of Paddy Power plc, a board he joined in 2003 and served as senior independent Director as well as chairman of its remuneration committee prior to assuming the role of chairman of its board. He is currently chairman of the board of Debenhams plc, the retailer, a role he assumed in 2010 and is also a Non Executive Director of Inchcape plc, the automotive retailer. Nigel was a non-executive member of the board of Aggreko plc from 2002 to 2010 where he was chairman of its remuneration committee and served as senior independent director from 2005 to 2010. Between 2008 and 2010 he was a non-executive director of Thomas Cook Group plc.

Nigel's extensive executive and non-executive experience enables him to make a significant contribution to the deliberations of the Board and his previous remuneration experience is particularly relevant to his role as chairman of the Board's Remuneration Committee.

Nigel has served as chairman of the Remuneration Committee since January 2014, at which time he was also appointed as a member of the Appointments Committee.

Frank O'Connor
Frank O'Connor was appointed to the Board with effect from 14 March 2014. He is co-founder and, since 2002, Chief Executive Officer of Airtel ATN Limited, an independent supplier of data communication solutions for the aerospace industry. Frank has over 20 years of experience in aviation in the field of aeronautical telecommunications networks, having joined Retix as software engineering manager in 1990 prior to co-founding Airtel ATN Limited in 1998. Prior to Retix, Frank spent four years at CACI where he managed the Dublin office and was responsible for the development of simulation tools. Frank started his career at Systems Dynamics, where he spent eight years including two in Germany and the Netherlands. Frank has a B.Sc. in Computer Science from University College Dublin.

Frank's significant executive level experience in founding and leading a supplier of data communication solutions to the aviation and aerospace industry enables him to bring a particular insight to the Board in that regard.

Nicola Shaw
Nicola Shaw was appointed to the Board on 25 January 2010. Nicola is chief executive officer at High Speed 1, the railway between St Pancras in London and the Channel Tunnel that connects with the international high speed routes between London and Paris and London and Brussels. Prior to that Nicola served as director for the UK, Ireland and Germany of FirstGroup plc's bus division. She previously worked in senior positions in both the UK Strategic Rail Authority and the Office of the Rail Regulator. She was also a transport consultant with Bechtel and Halcrow Fox and holds a BA in modern history and economics from Oxford University and an MSc in transport from MIT.

Nicola's significant experience in the transport sector enables her to bring directly relevant skills and expertise to the Board. Her understanding of the financial and performance fundamentals of listed companies and those in the transport sector make her ideally suited for membership of both the Audit and Remuneration Committees.

Nicola has served as a member of the Audit and Remuneration Committees since June 2010 and assumed the chairmanship of the Audit Committee in August 2013.

William Slattery
William Slattery was appointed to the Board on 12 July 2013. He is an executive vice president of State Street Corporation, head of global services, Europe, Middle East and Africa. William worked for the Central Bank of Ireland for 23 years until 1996. He was responsible for the supervision of Dublin's International Financial Services Centre from its inception until 1995 and held the position of deputy head of banking supervision immediately prior to leaving. After leaving the Central Bank of Ireland, he worked for Deutsche Bank AG and spent five years in London where, from 1999 to 2001, he was managing director and global head of risk management for the asset management division, and a member of the Deutsche Bank AG group risk board. William is a former member of Ireland's National Competitiveness Council and of the Clearing House Group, an umbrella group with responsibility for the oversight of the IFSC chaired by the secretary general of the Department of the Taoiseach. He is also outgoing chairman of the executive steering committee of IFSC Ireland, which was formed by the leading representatives and professional bodies associated with international financial services in Ireland. Mr. Slattery is also a former chairman of Financial Services Ireland. He was a member of the Review Group on Public Service Expenditure, established by the Irish Government in 2009, and of the 2nd Public Service Benchmarking Body, established in 2006.

William has served as chairman of the Risk Committee since January 2014. William's extensive banking, financial services, regulatory and risk management experience enables him to make a substantive contribution to the work of the Board and is particularly relevant to his chairmanship of the Risk Committee.

Nicolás Villén
Nicolás Villén was appointed to the Board with effect from 1 January 2014. Nicolás is a former chief executive officer of Ferrovial Aeropuertos, the Airport Division of Ferrovial which included all BAA Limited ("BAA") airports (Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen, Southampton and Naples). Prior to that, Nicolás was Chief Financial Officer of Ferrovial from 1993 to 2009. During his tenure at Ferrovial, he held numerous international board positions, including at BAA, now Heathrow Airport Holdings, from the time of Ferrovial´s acquisition in 2006. He was also a member of its Audit Committee, its health, safety and environment committee, and chairman of the remuneration committee at BAA. He is also a senior adviser to IFM Investors (an Australian Fund Management Company) Global Infrastructure Fund and an industry adviser to Advent International. Currently, Nicolás serves as a director on the boards of Dinamia and CLH, two publicly listed companies in the Madrid Stock Exchange. He is also chairman of their audit committees.

Nicolás began his career in the USA with Corning Glass, later holding positions in finance and marketing in Abbott Laboratories and Smithkline Beecham in Spain where he was chief executive officer. Before joining Ferrovial he was chief executive officer of private equity firm Midland Montagu in Spain. Nicolás holds a degree in industrial engineering from Madrid University, a MSc from the University of Florida and a MBA from Columbia University. He was awarded a Fulbright Scholarship and a Samuel Bronfman Fellowship. Nicolás lives in Madrid.

Nicolás' wide-ranging executive and financial experience, including in the aviation sector, enables him to make a substantive contribution to the Board and its committees.

Nicolás has served as a member of the Audit Committee since January 2014. He has also served as chairman of the Safety Committee since January 2014.

Executive Management Team

Christoph Mueller
Chief Executive Officer
See Board of Directors on page 38.

Andrew Macfarlane
Chief Financial Officer
See Board of Directors on page 38.

Michael Grealy
Chief People & Change Officer
Michael Grealy is a graduate of Trinity College Dublin. He was appointed Chief People & Change Officer in September 2009. Formerly Head of Group Human Resources and a member of the Group Executive Committee of Bank of Ireland, Michael has extensive experience at a senior level in human resources within major industries in Ireland, France and the US. As a former Head of Group HR in Bank of Ireland (2001-2006), Michael was a key member of the senior management team and was central to the alignment of the Group's HR strategy with the Group's business strategy, as well as being central to the implementation of a number of major change initiatives. Michael was subsequently Chief Executive, Alternative Investments and Global Distribution with Bank of Ireland. Michael has also held senior Human Resources positions in Boston Scientific and Seagate Technology.

Stephen Kavanagh
Chief Strategy & Planning Officer
Stephen Kavanagh is a graduate of University College Dublin and joined the Company in 1988. He undertook a number of analytical and management roles in fleet scheduling and business planning departments before being appointed Operations Planning Manager in 2003 with responsibility for the integration of network, aircraft and crew planning, and a focus on improved productivity and asset utilisation. Stephen was appointed to the senior management team in March 2006 as Planning Director and was appointed as Corporate Planning Director in November 2007. In 2009 he was appointed as Chief Commercial Officer and subsequently as Chief Strategy & Planning Officer in early 2014.

Dónal Moriarty
Executive Counsel
Dónal Moriarty was appointed as Executive Counsel with effect from 1 January 2012. The Executive Counsel Function ensures that the existing expertise within each of the Legal, Company Secretarial, Aero-political/Regulatory Affairs and Public Relations areas are directly represented on the Executive Team. In this manner, guidance and advice is provided directly to the Executive Team and the Board on the legal, regulatory, compliance and reputational implications of their decision making. Dónal is a solicitor and was Company Secretary at Aer Lingus from early 2009 to September 2012. Prior to joining Aer Lingus he spent 9 years with software company IONA Technologies, most recently as Assistant General Counsel. Prior to that he worked in practice as a solicitor in the Corporate Department of William Fry. Dónal is a graduate of University College Dublin.

Mike Rutter
Chief Revenue Officer
Mike Rutter takes up appointment as Chief Revenue Officer at the start of April 2014. Mike previously worked in the aviation, healthcare, pharmaceutical and securities sectors. Most recently. Mike spent 12 years in Flybe where he held a number of Executive positions spanning commercial and operational responsibilities. During his time in Flybe, he introduced baggage charging and also led Flybe's business expansion into Europe building a 28 aircraft airline headquartered in Helsinki.

Ravindra Simhambhatla
Chief Technology Officer
Ravi Simhambhatla was appointed as the Chief Technology Officer with effect from 18 June 2012. Ravindra 's career to date spans three continents, bringing with him a wealth of global experience in technology innovation, gained from working in senior Director and CIO roles in the aviation, software and motor industries. Prior to working for Aer Lingus, Ravindra worked for Tesla Motors as Vice President Information Technology. He has particularly strong experience of technology within the aviation industry having spent five years with Virgin America. He joined Virgin in 2006 during its startup phase and pioneered a systems architecture and infrastructure designed to drive differentiated customer experiences and support strong e-commerce platforms. He also spent a year in Dublin in the 1990s while working with GE Information Services.

Robert Somers
Executive for Flight Operations and Contract Flying
Robert Somers was appointed as the Executive for Flight Operations & Contract Flying with effect from 1 February 2014. Robert had served as Director of ACMI & White Tail Flying since February 2013. Before he joined Aer Lingus, Robert was CEO of the Swiss Charter and ACMI airline "Hello". He was also the CEO of Swiss Aviation Training. Robert is a qualified aircraft avionics engineer and qualified Captain with Type ratings and instructor privileges on various aircraft including the Boeing MD80/90 and Airbus A320. He holds a masters degree in International Executive Business Management from Zurich.

Fergus Wilson
Chief Operating Officer
Fergus Wilson was appointed as the Chief Operating Officer with effect from 1 January 2012. Fergus had served as Chief Operating Officer on an interim basis since July 2011 and from 2006 led the Maintenance and Engineering function as Post Holder for Continuing Airworthiness and Maintenance. He was appointed to the senior management team in 2002 in the role of Deputy Chief Engineer having previously served in senior management roles within the former regional airline Aer Lingus Commuter. Fergus is a licensed aircraft maintenance engineer in airframe, powerplant and avionic disciplines having initially served an apprenticeship with Aer Lingus, joining in 1978. He holds an MBA from the Open University Business School.

Safety and Security Statement

Aer Lingus Safety Management System ("SMS")

Safety is a core corporate value of Aer Lingus and we are committed to maintaining a safe, healthy and sustainable working environment wherever we operate. We actively manage safety as an integral part of all operations, both in the air and on the ground.

We are committed to implementing, developing and improving strategies, management systems and processes to ensure that all our activities uphold the highest level of safety performance. Safety depends on the cooperation of all employees in the organisation. Our aim is not simply to avoid accidents but to motivate and empower people to work safely.

Aer Lingus' SMS is directed by the Corporate Safety and Risk Manager ("CSRM"). This role reports directly to the Chief Executive, ensuring continued accountability and awareness of these issues and their importance within the Group. The CSRM has responsibility for the co-ordination and oversight of the key SMS components; Air Safety, Health and Safety, Security, Quality Assurance and Emergency Response Planning, and in 2013 assumed responsibility for the development and implementation of an Enterprise Risk Management system.

The SMS involves the ongoing routine collection and analysis of safety data during the ordinary course of business, which enables proactive management. This includes Flight Data Monitoring, a Confidential Safety Reporting System and a Hazard Identification and Risk Analysis (HIRA) programme. The principles of air safety management are integral to all Aer Lingus' training programmes. Courses are designed around the prevention of accidents and incidents and cover all aspects of our operation, including the handling of dangerous goods and aviation security. Training records and processes are regularly subject to external review and audit.

Aer Lingus is registered as an IOSA Operator under the IATA Operational Safety Audit Programme. IOSA is an internationally recognised evaluation system designed to assess an airline's operational management and control systems. The biennial IOSA audit took place in June 2013, confirming that Aer Lingus is fully compliant, having met all of the standards with zero findings.

There is a programme of continual review to ensure ongoing compliance with the Safety, Health and Welfare at Work Act 2005, and the General Applications Regulations 2007 and with all relevant safety regulations, as well as the integration of Health & Safety into the Airline's flight safety & accident prevention programme.

Air Safety
In 2013 the Air Safety Office was re-designated the Corporate Safety & Risk Office ("CSRO") reflecting the inclusion of Enterprise Risk Management into the office's capabilities. Aer Lingus' CSRO acts as an independent monitor of air safety risk management. This office focuses on accident prevention, hazard and risk analysis and promotes best practice and awareness throughout the Group. The CSRO operates the Group's Air Safety Reporting System, its occurrence database and a Confidential Safety reporting system.

Aer Lingus participates in a number of international safety organisations and forums including; European Aviation Safety Agency, European Commercial Aircraft Safety Team, International Air Transport Association and the Flight Safety Foundation. Through its involvement with the international aviation community, Aer Lingus enhances its safety awareness by means of information sharing, ensuring that at all times the Group is fully compliant with international best practice.

Board Committee on Safety
The Aer Lingus Board has a Safety Committee, which assists the Board in discharging its responsibility for safety. This includes ensuring that adequate safety regulations and procedures are in place, that such procedures are complied with and periodically reviewed, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed.

This Committee met four times in 2013, with the CEO, CSRM and the Corporate Health & Safety Advisor in attendance, to be appraised of safety performance and developments within the organisation.

Health and Safety
The Company maintains a well established Health and Safety Office (HSO). Under the direction of the Corporate Health & Safety Advisor, the office regularly reviews and develops policy. The HSO focuses on accident prevention via a hazard and risk assessment programme. The health and safety officers run a continual programme of training in consultation with line departments, advising on development of best practice and managing incident reporting and occupational accident investigation procedures.

It is Aer Lingus policy to have as a constant objective the creation and maintenance of a safe working environment for its staff. The Group has a Safety Statement, based on compliance with all relevant legislation and regulations, which specifies how this should be implemented. Annual reviews are carried out to ensure compliance and system effectiveness.

Quality Assurance
The Quality Management System provides regulatory compliance oversight of both technical and operational activities, as well as all third party and partner airline contracts. The Quality Department performs the oversight and internal quality assurance audit function of Aer Lingus and contracted organisations in order to comply with the requirements of IAA, EASA and EU-Ops legislation.

Security
The Group's Corporate Security Office acts in an advisory and consultative capacity in relation to all aspects of both corporate security and aviation security. The aim of aviation security is to protect passengers, crew, staff and members of the public and civil aviation in general from acts of unlawful interference.

Aer Lingus ensures that both directly employed staff, handling agents and contracted agencies across the network are fully trained regarding aviation security requirements and made aware of the need for a high level of security and vigilance at all times. Aer Lingus achieves this aim by compliance with all aviation security statutory and regulatory requirements in jurisdictions where we operate.

Aer Lingus continues to ensure its Disruptive (Unruly) Passenger Policy is followed. This policy is made available to all staff and handling agents to prevent and detect unruly behaviour that can cause discomfort, inconvenience or injury to other passengers, crew or ground staff.

The Corporate Security Office pursues a collaborative approach with the IAA toward maintaining our continuing high level of compliance and adoption of best security practice.

The Corporate Security Office is responsible for development and implementation of the Aer Lingus Air Carrier Security Programme, which sets out the security policies and processes by which regulatory requirements are met. Our Policy is to promote the continuous improvement of our security management system and security culture that encourages the reporting of security incidents.

Corporate Social Responsibility Statement

Aer Lingus is an organisation committed to social responsibility and makes a positive contribution to the communities in which it operates and markets which it serves. We value the contribution made by our people in delivering the care, attention and dedication required of a world class airline.

Environment
Aer Lingus acknowledges its responsibility in terms of the environmental impact of its operations. Balancing the protection of the environment with people's need to travel is essential for both ethical and business reasons. The airline continues to pursue initiatives to outset the impact of its operations on the environment.

Fleet
Aer Lingus operates a very young and fuel efficient fleet. The average age of the fleet was 8.2 years as at 31 December 2013.

Air Emissions
Aer Lingus operates a focused "fuel conservation plan" to minimise fuel consumption and the emission of greenhouse gases. This plan harnesses available cost efficiencies and as emissions are directly proportional to fuel burn, it also reduces emission levels and it has had a measurable impact on fuel and emission efficiency. On an ongoing basis, engines are monitored, maintained and overhauled to maximise fuel efficiency and minimise emissions. This engine conditioning monitoring aims to give advance warning of impending deterioration of parts, allowing for preventative maintenance which contributes to ensuring efficient engines and therefore has both emission control and fuel burn benefits. Aer Lingus also performs engine water washes on both engines types in the fleet, which improves fuel burn and also results in lower emissions. In addition, airframes are inspected and maintained to ensure minimum drag. Aer Lingus' continued commitment to maintaining a young fleet also improves operational fuel efficiencies due to the use of newer technology and this will continue in the future.

Waste Management
Aer Lingus is committed to managing its waste effectively by minimising, recycling and disposing of waste materials. The airline has a number of programmes in place to divert waste from landfill. As with all airlines, Aer Lingus must store and/or handle potentially hazardous waste as a result of its operations (e.g. solid/liquid waste from maintenance operations). These operations are subject to detailed legislation and regulation. All staff involved in these operations receive appropriate training and Aer Lingus ensures that processes applied both internally and, by third parties engaged to treat such waste, are in line with best practice. Non-hazardous waste from aircraft is also subject to controls and licensing.

Emissions to Waters/Sewers
Aer Lingus is subject to regulation and licensing in relation to surface water and sewer emissions from operations such as de-icing, fuel/oil spillages and catering sewer emissions. Aer Lingus has pollution prevention policies and procedures in place across its network and works closely with airport authorities to ensure full compliance and to avoid penalties and fines.

Our People
We seek to instil in our people the determination and passion to deliver great customer service and in this way drive our business forward. We recognise the importance of the contribution made by our people in delivering our *Great Care, Great Fare* promise to our customers. We believe that taking *Great Care* in everything we do enables us to differentiate ourselves from our competitors.

Recruitment
We are committed to recruiting the best people and to developing their careers throughout their time with Aer Lingus. As a result, our airline is viewed as an employer of choice. Through our recruitment policies and procedures we provide equal access to all qualified candidates and avoid all forms of discrimination. Our objective is always to select the candidate most suitable for each position, on the basis of pre-set selection criteria.

Learning and Development
Aer Lingus is committed to providing high-quality learning to support the safe and efficient operation of the business. Our primary focus is on mandatory training requirements, in particular air safety, aviation security, health and safety and operational training. In addition, there is a particular focus on customer service training to ensure that a safe, consistent and satisfactory customer experience is delivered. The majority of cabin crew and pilot training is designed and delivered in-house through dedicated facilities on-site so as to ensure a consistent standard and quality of training.

Equality and Diversity
Aer Lingus is fully committed to being an equal opportunities employer regardless of nationality or ethnic origin, race, gender, sexual orientation, marital status, disability, age and religious or political belief. The Group proactively ensures compliance with all relevant equality legislation. During 2013 a total of 40 different nationalities worked across the Group.

Flexible Working
Aer Lingus recognises that changes in personal circumstances affect employees' lives and work. In order to recognise the diverse needs of employees, and to ensure fairness and consistency across the airline, Aer Lingus has a flexible working policy. The objective of this policy is to help staff achieve a healthier balance between their working lives and personal responsibility without compromising business needs and to retain valued, experienced and trained employees. The policy includes flexible working and leave arrangements such as flexitime, part-time work, job sharing, paternity leave, bereavement leave and compassionate leave.

Supporting Charitable Organisations
Aer Lingus has a strong tradition of providing support for good causes and community initiatives both within Ireland and overseas. The airline continued to make a significant contribution to a wide range of organisations in 2013.

UNICEF – Change for Good
In 2013, Aer Lingus passengers and cabin crew raised over US$995,000 by placing unused currency in special envelopes on flights. This brings the total amount generated by this long running partnership to almost US$17 million since 1997. The monies raised through the Change for Good programme has helped to provide thousands of vulnerable children in deprived areas of the world with the essentials for a safe and healthy childhood.

GOAL
Following the devastating typhoon in the Philippines, Aer Lingus teamed up with GOAL to fly 40 tonnes of humanitarian aid, including much-needed emergency medical supplies, water, food, shelter materials and other essential items to survivors of Typhoon Haiyan. The Aer Lingus flight carried supplies from Dublin to Dubai for onward distribution to the Philippines.

Supporting Businesses
Aer Lingus supports many organisations and initiatives focused on promoting business and international trade. In 2013 we sponsored many business initiatives including;

Through the Aer Lingus Viscount Awards, now in the sixth year, Aer Lingus promotes the economic ties between Northern Ireland and Great Britain.

Aer Lingus also supports the 'Gateway to Europe Expo' initiative, giving support in the form of flights for Irish businesses exhibiting in cities across North America, in an effort to encourage US business to locate and invest in Ireland.

Sports Sponsorship
The airline continued its support of community based sports initiatives throughout 2013 through its partnership with Dublin GAA, the GPA and the Galway Hurling Supporters Club. Aer Lingus is the Official Airline Sponsor of Ulster Rugby and the Ulster Grand Prix.

2013 was the year of the Gathering, a major initiative aimed at boasting inbound tourism numbers. Aer Lingus organised its own Gathering event in the form of the first ever International Hurling Festival, which took place in Galway in September 2013. Sixteen overseas teams participated in the competition from around the world. The tournament served as an opportunity to proudly showcase Ireland's national sport to thousands of visitors from around the world.

Employee Support
Aer Lingus encourage and support employees involved in fundraising for charitable initiatives through their sports clubs and associations.

In addition, the company participates and facilitates charitable donations by its employees through payroll deductions for Air Concern. This Dublin Airport based initiative provides financial assistance to families in need in the community working with the Ballymun Money Advice and Budgeting Service.

Ethical
The Aer Lingus Code of Business Conduct and Ethics aims to ensure the highest ethical standards in conducting business activities with customers and suppliers. The code supplements established procedures, regulations and authority levels already in place. Staff contracts contain an obligation to comply with Group policies. Under the Code of Business Conduct and Ethics employees have a responsibility to declare in writing any potential conflict of interest which might affect their impartiality in carrying out their duties; maintain confidentiality of information at all times; and ensure they do not accepts gifts, entertainment or favours from customers or suppliers which could compromise them. In addition, there is a specific procurement policy, which governs the purchase of significant goods and services.

Directors' Report

Year ended 31 December 2013

Introduction

The Directors present their report to shareholders, together with the financial statements of Aer Lingus Group plc and the Auditors' report thereon, for the year ended 31 December 2013.

Principal activities and future developments

The principal activities during the year continued to be the provision of air travel services. The Chairman's Statement and Chief Executive Officer's Review on pages 3 to 7 reports on developments during the year, on the state of affairs at 31 December 2013, on events since 31 December 2013, and on likely future developments. Further information with respect to the review of the business and future developments is contained in the Operating, Financial and Quarterly Review on pages 8 to 30. The financial statements for the year ended 31 December 2013 are set out in detail on pages 79 to 137.

Information on the key performance indicators applicable to the Group are detailed in the Financial Highlights on page 1, the Chairman's Statement on pages 3 to 4, the Chief Executive Officer's Review on pages 5 to 7 and in the Operating, Financial and Quarterly Review on pages 8 to 30.

Results for the year and state of affairs as at 31 December 2013

The consolidated income statement for the year ended 31 December 2013 and the consolidated statement of financial position at that date are set out on pages 79 and 81 respectively. The profit for the year after tax amounted to €34.1 million (2012: profit of €33.9 million).

The movement on consolidated retained earnings for the year is as follows:

	€m
Balance as at 31 December 2012	(59.0)
Comprehensive income for the year taken to retained earnings	41.4
Dividends paid	(21.3)
Exercise of share awards	(1.6)
Capital reduction	500.0
Balance as at 31 December 2013	459.5

Total equity increased by approximately €18.1 million during the year as a result of the movement in retained earnings for the year of €518.5 million, a reduction of €500 million in capital reserves, and a net decrease in other reserves of approximately €0.4 million. €500 million of the €518.5 million movement in retained earnings is driven by the capital reduction detailed in Note 31. A detailed reconciliation of the movement is provided in the Consolidated Statement of Changes in Equity.

Substantial interests in share capital

As at 31 December 2013, the Directors were aware of the following substantial interests in the share capital of the Company which represented more than 3% of the issued share capital:

Name	Shares held	% of issued share capital
Ryanair Limited	159,231,025	29.82%
Minister for Finance of Ireland	134,109,026	25.11%
Denis O’ Brien	20,808,822	3.9%

As far as the Directors are aware, as of 17 March 2014 these shareholdings remain unchanged. On 28 February 2014 an additional shareholder, Etihad Airways PJSC, increased its holding to in excess of 3%. As of 17 March 2014, as far as the Directors are aware, Etihad Airways PJSC held 21,950,000 shares, representing 4.11% of the issued share capital of the Company.

As far as the Directors are aware, other than stated above, no other person or company has an interest of more than 3% in the share capital of the company.

Accounting policies

The Group accounts are prepared under International Financial Reporting Standards as adopted by the EU. The principal accounting policies, together with the basis of preparation of the accounts are set out in Note 2 to the consolidated financial statements.

Dividends

On 4th May 2012 the company announced a change to its dividend policy. The Company paid its first dividend of three cent per share on 31 July 2012. On 6 February 2013, the board announced that it would recommend a dividend payment of four cent per share in respect of the year ended 31 December 2012, subject to shareholder approval at the AGM. The Company paid its second dividend, of four cent per share, on 10 May 2013. On 24 February 2014, the board announced that it would recommend a dividend payment of four cent per share in respect of the year ended 31 December 2013, subject to shareholder approval at the AGM.

Principal risks and uncertainties

Information on the principal risks and uncertainties facing the Group are detailed on pages 31 to 37. The Financial Risk Management policies are set out in Note 3 to the consolidated financial statements.

Directors and Secretary

The names of the current Directors appear on pages 38 to 40. The Directors who served during the year are listed in the table below:

Director	Status	Independent / Non-Independent
Colm Barrington	Current	Independent
David Begg	Current	Non-Independent (former ESOT nominee)
Montie Brewer	Current	Independent
Laurence Crowley[1]	Current	Independent
Mella Frewen	Retired	Independent
Danuta Gray	Retired	Independent
Francis Hackett	Retired	Non-Independent (Minister's nominee)
Dr. Colin Hunt	Retired	Non-Independent (Minister's nominee)
Andrew Macfarlane	Current	Non-Independent (Executive)
Tom Moran	Retired	Independent
Christoph Mueller	Current	Non-Independent (Executive)
Nicola Shaw	Current	Independent
William Slattery	Current	Non-Independent (Minister's nominee)

Ms. Mella Frewen, Ms. Danuta Gray and Mr. Tom Moran retired from the Board on 31 December 2013. Dr. Colin Hunt and Mr. Francis Hackett retired from the Board on 29 January 2014 and 7 February 2014 respectively.

Mr. John Hartnett, Mr. Nigel Northridge and Mr. Nicolás Villén subsequently joined the Board as independent non-executive directors on 1 January 2014. Mr. Frank O'Connor joined the Board as a nominee of the Minister for Transport, Tourism and Sport of Ireland on 14 March 2014 and is considered as non-independent.

On 25 March 2014 Mr. Andrew Macfarlane, Executive Director and the Group's Chief Financial Officer (CFO) informed the Board that he will step down from his position as CFO and Executive Director to take up a new role in the Middle East outside of the aviation industry. The Board has commenced a process to recruit a new CFO. Mr. Macfarlane will remain in his current role of CFO and Executive Director for up to 6 months to facilitate the transition to a new CFO.

Mr. Colm Barrington, Mr. David Begg, Mr. Montie Brewer, Mr. Laurence Crowley, Ms. Mella Frewen, Ms. Danuta Gray, Mr. Andrew Macfarlane, Mr. Tom Moran, Mr. Christoph Mueller and Ms. Nicola Shaw were re-elected as Directors at the Company's Annual General Meeting (AGM) held on 26 April 2013.

The interests of the Directors in office at 31 December 2013 in the shares of the Group are outlined in table 2.2 in the Report of the Remuneration Committee on Directors Remuneration on page 69.

[1] Aer Lingus has determined that Mr. Crowley is an independent director notwithstanding the related party disclosure required under IAS 24, as set out in Note 35. At the time of Mr. Crowley's appointment to the Board of Aer Lingus in 2009, Aer Lingus undertook an assessment of his independence. Aer Lingus determined that the existence of the business relationship with Realex was not such that it affected or impaired Mr. Crowley's independent judgement and he was, therefore, determined to be independent in character and judgement. As part of its assessment, the following factors were considered; the monetary value of the Aer Lingus business to Realex was not significant and was diminishing; Mr. Crowley did not hold any shares in Realex; Mr. Crowley's remuneration as a Realex non-executive director was a modest fixed fee and not, in any way, linked to Realex's performance; Aer Lingus' business relationship with Realex predated Mr. Crowley's appointment as a non-executive director of Realex; the expenditure incurred by Aer Lingus in its business relationship with Realex was immaterial.

On 24 September 2012 the Board announced that, in addition to his normal responsibilities as a Director of the Company, during 2012 the Board had asked Mr. Francis Hackett to take on additional responsibility in chairing a legal committee of the Board to support management in relation to Aer Lingus' application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters. Mr. Hackett continued to assume such additional responsibilities during 2013. Mr Hackett's terms of appointment were amended in 2012 in order to reflect his assumption of these additional responsibilities.

Other than Mr. Hackett's arrangement to support management in relation to Aer Lingus' application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters as described above there were no contracts or arrangements entered into during the year in which a Director was materially interested and which were significant in relation to the Group's business.

During the year ended 31 December 2013, the Company Secretary (Ms. Méabh Gallagher) was granted a conditional award of 35,000 shares under the Long Term Incentive Plan ("LTIP") in respect of the vesting period 1 January 2013 to 31 December 2015. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP. The Company Secretary did not hold any shares or conditional share awards at 31 December 2012. Other than these awards Ms. Gallagher did not hold any shares as at 31 December 2013.

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group.

In preparing these financial statements the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union , and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are also required by applicable law and the Listing Rules issued by the Irish Stock Exchange, to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 ("the Transparency Regulations"), as amended by Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012, the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the group.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2013 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Irish legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal control

The Board has overall responsibility for the Group's system of internal control. Those systems which are maintained by the Group, can only provide reasonable and not absolute assurance against material misstatement or loss. An outline of the Group's Internal Control processes is included in the Corporate Governance Statement on pages 52 to 60.

Issue and purchase of own shares

The Company received authority from shareholders at its last Annual General Meeting on 26 April 2013 to allot relevant securities up to a nominal value of €8,811,661.45 (176,233,229 shares) and purchase up to 10% of its own shares and to reissue such shares purchased by it and not cancelled as treasury shares with a minimum and maximum price at which such treasury shares may be issued set at 95% and 120%, respectively, of the then market price of such shares. The Company did not exercise these authorities during 2013. These authorities are due to expire at the Company's forthcoming Annual General Meeting, and shareholders will be requested to renew them. Details of the proposed renewal of the authorities will be set out in the notice of the meeting.

Share ownership restrictions

Since Aer Lingus' entitlement to obtain or to continue to hold or enjoy the benefit of the licences, permits, consents and privileges that enable Aer Lingus to carry on business as an air carrier in Ireland and/or internationally can be adversely affected if too many of the Ordinary Shares are held by non-EU nationals, the Directors are given certain powers under the Articles of Association to take action to ensure that shareholdings of non-EU nationals in the Company's share capital are not of such a size or type which could jeopardise Aer Lingus' air carrier rights. The Directors have the power to designate a maximum percentage of the Company's share capital which may be held by Non-EU nationals and have determined that in excess of 50% of the Company's issued share capital are required to be held by EU shareholders.

Political contributions

No political donations were made by the Group during the year.

Subsidiary companies

Details of the Group companies are set out in Note 17 to the consolidated financial statements.

Books of account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Dublin Airport, Co. Dublin, Ireland.

Independent auditors

The independent auditors, PricewaterhouseCoopers, are prepared to continue in office in accordance with the provisions of S.160 (2) of the Companies Act, 1963. Section 160(2) of the Companies Act, 1963 provides that the auditor of an Irish company shall be automatically re-appointed at a company's annual general meeting unless the auditor has given notice in writing of his unwillingness to be re-appointed or a resolution has been passed at that meeting appointing someone else or providing expressly that the incumbent auditor shall not be re-appointed. In this respect, Irish company law differs from the requirements that apply in other jurisdictions, for example in the U.K., where auditors of a public company must be re-appointed annually by shareholders at the annual general meeting. The Auditors, PricewaterhouseCoopers, are willing to continue in office. Accordingly, the Directors have not proposed a resolution to re-appoint PricewaterhouseCoopers as such a resolution can have no effect.

Transparency (Directive 2004/109/EC) Regulations 2007

As required by Statutory Instrument 277/2007 Transparency (Directive 2004/109/EC) Regulations 2007 as amended by Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 the following sections of the Company's Annual Report shall be treated as forming part of this report:

- The Chairman's Introduction and Chief Executive's Review on pages 3 to 7;
- Operating, Financial and Quarterly Review on pages 8 to 30 and the Principal Risks and Uncertainties on pages 31 to 37, which include a review of the price risk and cash flow risk, external environment, key strategic aims and performance measures;
- Details of earnings per ordinary share on page 27;
- Details of derivative financial instruments on Note 19 to the consolidated financial statements; and
- Details of key performance indicators relating to employee matters, e.g. change in number of employees, in Note 11 to the consolidated financial statements

Events after the reporting date

Events after the reporting date are disclosed in Note 37 to the financial statements.

Financial risk management

Details regarding financial risk management are set out at Note 3 to the consolidated financial statements.

Corporate Governance Statement– Year ended 31 December 2013

The Report of the Remuneration Committee on Directors' Remuneration is set out on pages 61 to 70. The Directors' Corporate Social Responsibility Statement is set out on pages 44 to 45.

The Company is committed to maintaining the highest standards of corporate governance and the Directors recognise their accountability to the Company's shareholders in this regard. The Company applies the UK Corporate Governance Code (September 2012) published by the Financial Reporting Council in the UK and the Irish Corporate Governance Annex published by the Irish Stock Exchange (together the "Codes") in respect of its corporate governance practices.

Under Statutory Instrument 450/2009 European Communities (Directive 2006/46/EC) Regulations 2009 and the Listing Rules of the Irish Stock Exchange (ISE), the Directors are required in this statement to describe how the principles of the Codes have been applied by the Company in the year.

A copy of the UK Corporate Governance Code (September 2012) can be obtained from the Financial Reporting Council's website, www.frc.org.uk . A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website, www.ise.ie.

Statement of compliance

Except as disclosed below, the Directors consider that the Company has complied with all relevant provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex throughout the year.

Rotation of Directors: The Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to 3 Directors. These rights do not comply with the requirement under the UK Corporate Governance Code that the Appointments Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and the requirement under the UK Corporate Governance Code that all Directors be submitted for re-election annually.

Board of Directors

Role

The duties of the Board and its committees are set out clearly in formal terms of reference which are reviewed regularly and state the items specifically reserved for decision by the Board.

The Board is responsible for the leadership, control and oversight of the Company. There are matters formally reserved to the Board for consideration and decision. The Board is responsible for establishing overall group strategy. It approves the Group's commercial strategy and the operating budget and monitors performance through the receipt of monthly operating information and financial statements. The approval of acquisitions is also a matter reserved for the Board. Similarly, there are authority levels covering capital expenditure which can be exercised by the Chief Executive or by the Chairman and Chief Executive jointly. Beyond these levels of authority, projects are referred to the Board for approval.

Other matters reserved to the Board include treasury policy; internal control, audit and risk management; pension schemes; corporate governance; corporate social responsibility and the appointment or removal of the Company Secretary. The Board has delegated responsibility for the management of the Company, through the Chief Executive, to executive management. The Board also delegates some of its responsibilities to Board Committees, details of which are set out below.

Board Size and Membership

The Board currently comprises 12 Directors – two executive Directors (Christoph Mueller, Chief Executive Officer and Andrew Macfarlane, Chief Financial Officer) and 10 Non-Executive Directors (including the Chairman of the Board). Detailed biographies of current Directors are set out on pages 38 to 40 together with a detailed description of the skills, expertise and experience that each of the Directors brings to the Board.

In circumstances where (a) the Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland) is entitled to nominate three Directors to the Board; and (b) there are two executive Directors; a Board comprising thirteen Board members is the minimum size required in order to comply with provision B.1.2 of the UK Corporate Governance Code. As at the date of this report only two Government-nominated directors stand appointed to the Board. The Board considers that the Board currently comprising 12 Directors is cohesive and that between them the Directors bring the breadth and depth of skills, knowledge and experience that are required to lead the Group. The Board also considers that the Directors have sufficient time to discharge their responsibilities.

As can be seen from the biographies of the Directors set out on pages 38 to 40, the Company has access to the skills, expertise and experience it needs for its business. In addition, the Board is committed to a policy of refreshment and renewal in relation to the Board of Directors and, in that regard, there have been a number of changes to its membership in 2013 and early 2014.

Board Independence

During 2013, of the Non-Executive Directors, Mr. Montie Brewer, Mr. Laurence Crowley, Ms. Mella Frewen, Ms. Danuta Gray, Mr. Thomas Moran and Ms. Nicola Shaw were considered to be independent by the Board. During the entirety of 2013, at least half the Board, excluding the Chairman comprised Non-Executive Directors determined by the Board to be independent.

As at the date of this report, of the Non-Executive Directors, Mr. Montie Brewer, Mr. Laurence Crowley, Mr. John Hartnett, Mr. Nigel Northridge, Ms. Nicola Shaw and Mr. Nicolás Villén are considered to be independent by the Board. Therefore, as at the date of this report, at least half the Board excluding the Chairman, is comprised of Non-Executive Directors determined by the Board to be independent. It is the Company's intention to continue to review the composition of the Board to endeavour to continue to comply with this requirement in the UK Corporate Governance Code and to ensure the Directors bring the right range skills, knowledge and experience to the Board to discharge its obligations to the Company and its shareholders.

External Directorships

The Board believes it is beneficial for executive directors to hold non-executive directorships with other companies or industry associations provided that such roles do not impact their ongoing obligation and responsibility to the Company. The Board permits executives to accept such positions and to retain any related fees. Mr. Mueller serves as a non-executive member of the Board of Tourism Ireland and as non-executive Chairman of the Board of An Post. Further details are set out on page 38.

Chairman

Mr. Colm Barrington was appointed as Chairman of the Board on 3 October 2008. The Chairman was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board and the Chief Executive is responsible for running the business of Aer Lingus Group plc. The division of responsibilities between the Chairman and the Chief Executive is clearly established and has been set out in writing and approved by the Board. Throughout 2013, the roles of Chairman and Chief Executive were independent of each other.

The Chairman and the Company Secretary work closely together in planning a forward programme of Board meetings and establishing their agendas. During 2013, the Chairman ensured that the Board was supplied in a timely manner with information in a form and of a quality to enable it to discharge its duties via a fully-packaged application for the iPad tablet device. The Chairman encourages openness, debate and challenge at Board meetings. The Chairman holds a number of other directorships and the Board considers that these do not interfere with the discharge of his duties to Aer Lingus.

Senior Independent Director

Mr. Laurence Crowley has been the Senior Independent Director (SID) since his appointment on 9 January 2009. The role of the SID is clearly established and has been set out in writing and approved by the Board. The SID is available to all shareholders who have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive or Chief Financial Officer.

Terms of appointment

The Chief Executive Officer and the Chief Financial Officer have service contracts with the Company which have notice periods of 12 months or less.

The terms upon which each of the Non-Executive Directors has been appointed are set out in letters of appointment which reflect the form recommended by the UK Corporate Governance Code. Subject to the requirement for annual election for all Directors as required by the UK Corporate Governance Code, it is the Company's policy that each Non-Executive Director will be appointed for a fixed period not exceeding three years (with the potential for a second three year term), subject to satisfactory performance and re-election at any annual general meeting where this is required. Recommendation to shareholders for the election of Non-Executive Directors beyond six years will be made only after review by the Board. None of the Non-Executive Directors is a party to any service contract with the Company that provides for benefits upon termination.

The Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to three Directors. These rights may not comply with the requirements in the UK Corporate Governance Code (September 2012) that the Appointments Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and that all Directors be submitted for re-election at regular intervals. The Minister for Transport, Tourism and Sport of Ireland is entitled to nominate up to three Directors for appointment. The number of Directors eligible to be nominated by the Minister for Transport, Tourism and Sport of Ireland is dependent on the proportion of the total issued ordinary share capital held by the Minister for Finance. From 12 July 2013, the date of appointment of Mr. William Slattery, the Minister for Transport, Tourism and Sport of Ireland nominated his full entitlement of three Directors (Mr. Francis Hackett, Dr. Colin Hunt and Mr. William Slattery). Dr. Colin Hunt retired on 29 January 2014 and Mr. Francis Hackett retired on 7 February 2014. Following nomination by the Minister for Transport, Tourism and Sport of Ireland, Mr. Frank O'Connor was appointed to the Board with effect from 14 March 2014. As of 14 March 2014, the Minister for Transport, Tourism and Sport of Ireland has one unfilled vacancy at his disposal.

Retirement and re-election

Under the Articles of Association, one-third of the Directors who are subject to retirement by rotation retire from office at each AGM. However in compliance with the UK Corporate Governance Code, all Directors, with the exception of those nominated by the Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland), will retire at the forthcoming AGM and following review are being recommended for re-election. Directors nominated by the Minister for Transport, Tourism and Sport of Ireland are not subject to these provisions in relation to retirement.

It is the Board's policy to regularly review the chairmanship of its committees. Appointments to committees are for a period of up to three years, which may be extended for a further three-year period provided the Director is re-elected by shareholders and remains independent, or in the case of some committees, a majority of the Directors on the committee remain independent. A Director being a member of the same Board committee for more than six years may be permitted only after review by the Board. Recommendations to shareholders for the re-election of Non-Executive Directors for terms beyond six years will be made only after review by the Board.

Induction and development

New Directors are comprehensively briefed on the Company and its operations, including the provision of extensive induction materials on appointment. An induction process is clearly established and has been set out in writing and approved by Board. This process was revised and updated during 2013. In addition, to aid their ongoing development and understanding of the business, Directors engage with the executive and senior management teams on a continuing basis.

A procedure is in place under which Directors, in furtherance of their duties, are able to take professional advice, if necessary, at the Company's expense.

The Company Secretary is responsible for ensuring that Board procedures are followed and all Directors have access to her advice and services. The Company Secretary ensures that the Board members receive appropriate training as necessary. The Company Secretary is responsible for advising the Board on all corporate governance matters.

The Company has an insurance policy in place which insures the Directors in respect of legal action taken against them in respect of their reasonable actions as officers of the Company.

Meetings

The Board has a fixed schedule of meetings each year and may meet more frequently as required. There were nine scheduled Board meetings in 2013. Details of Directors' attendance at these meetings is outlined in the table on page 58. In line with best practice guidelines, all directors attended in excess of 75% of the pre-scheduled Board meetings in 2013 which they were entitled to attend.

For regular Board meetings, the agenda will usually comprise of reports from the Chief Executive Officer, Chief Financial Officer and executive management. The practice is to have the agenda and supporting papers circulated to the Directors seven days ahead of each meeting. It is inevitable that there will be occasions when circumstances arise to prevent Directors from attending meetings. In such circumstances, it is practice for the absent Director to review the Board papers with the Chairman and convey any views on specific issues. It should also be noted that the time commitment expected of Non-Executive Directors is not restricted to Board meetings. All of the Directors are to be available for consultation on specific issues falling within their particular fields of expertise. The Chairman and Non-Executive Directors meet at each scheduled meeting as a group without the executive Directors present. In addition a further meeting each year consists of the Senior Independent Director and the other Non-Executive Directors, without the Chairman being present.

Performance evaluation

The Board and its committees undertake an annual evaluation of their performance of how well they are functioning as an effective board applying best principles of governance, whether each director continues to contribute effectively and demonstrate commitment to the role and to identify areas for development. The Chairman's performance is evaluated by the Senior Independent Director and the Non-Executive Directors at least once a year. In addition to being evaluated by the Chairman, the Directors are also obliged to assess their own performance.

The performance evaluation of the Board was facilitated externally in 2012 by an external consultant (the Institute of Directors in Ireland) who has no connection with the Company or any of the Directors. In respect of the financial year ending 31 December 2013 the performance evaluation was facilitated internally. A detailed questionnaire was prepared for answer online by each person who was a serving Director at year end. Following the completion of the questionnaire, a report was prepared. The evaluation covered Board processes, composition including balance of skills, experience, diversity, independence and knowledge of the Company, how the Board worked together as a unit and other factors relevant to its effectiveness, strategy, risk management and evaluations of the full Board, Board Committees and individual Board members. The assessor prepared a report on the results of the questionnaire and presented it to the Chairman in respect of the Directors and to the Senior Independent Director in respect of the Chairman and the matter was subsequently discussed by the Board.

Remuneration

Details of Directors' remuneration is set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 61 to 70.

Share ownership and dealing

Details of the shares held by Directors are set out in Table 2.2 on page 69. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under the policy, Directors are required to obtain clearance from the Chairman before dealing in company shares. Directors and senior management are prohibited from dealing in company shares during designated prohibited periods and at any time which the individual is in possession of price-sensitive information.

Board committees

The Board has established five permanent committees to assist in the execution of its responsibilities. These are the Audit Committee, the Remuneration Committee, the Appointments Committee, the Safety Committee and the Risk Committee. Ad hoc committees are established from time to time to deal with specific matters. Terms of reference for each of the permanent committees have been documented and approved by the Board. Copies are available on request from the Company Secretary.

All Chairmen of the Committees attend the Company's AGM and are available to answer questions from the shareholders.

Audit Committee
The Board has established an Audit Committee consisting of at least three Non-Executive Directors considered by the Board to be independent. During 2013 the Audit Committee consisted of Mr. Laurence Crowley (Chair from December 2010 to August 2013), Ms. Danuta Gray, Ms. Nicola Shaw (Chair from August 2013), Mr. Tom Moran and Mr. Montie Brewer. Mr. Brewer was appointed to the Audit Committee in August 2013 Mr. Crowley is a Chartered Accountant and was the Committee's financial expert. In addition, all other members of the Audit Committee had recent and relevant financial experience. The Audit Committee met 11 times during the year. Two of its meetings were not pre-scheduled and were convened at short notice. Attendance at meetings held is set out in the table on page 58.

The main role and responsibilities of the Audit Committee are set out in written terms of reference, which encompass those set out in the UK Corporate Governance Code, and Statutory Instrument 220/2010 European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010, including:

- to monitor the statutory audit of the annual and consolidated accounts and the financial reporting process;
- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewing significant financial judgments contained therein;
- to review and monitor the effectiveness of the Company's internal financial controls and its systems of internal controls, internal audit and risk management systems (the review of risk management systems has been delegated to the Risk Committee to complete. The Risk Committee reports to the Audit Committee and the Board in this regard);
- to provide advice to the Board on whether the Company's annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- to monitor and review the results of the Company's internal audit function and the annual internal audit plan;
- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors, to approve the terms of engagement of the external auditors and to make recommendations to the Board regarding tendering the external audit contract from time to time;
- to monitor and review the external auditors' independence and objectivity (in particular the provision of additional services to the audited entity) and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board;
- to report to the Board, identifying any matters in respect of which it considers action or improvement is needed and making recommendations as to the steps to be taken;
- to draw to the attention of the Board Remuneration Committee any internal control or accounting issues that it believes should be taken into account when determining remuneration; and
- to review the Company's good faith reporting policy.

The Audit Committee report for year ended 31 December 2013 is set out in a letter from the chairman of the Audit Committee on pages 71 to 74.

Remuneration Committee
The Remuneration Committee of the Board during 2013 comprised three independent Non-Executive Directors. During 2013 the Committee members were Ms. Danuta Gray (Chair), Mr. Colm Barrington and Ms. Nicola Shaw. Mr. Colm Barrington was determined by the Board to be independent on his appointment to the Board and therefore his membership of the Remuneration Committee is in compliance with the requirements set out in the UK Corporate Governance Code.

The Remuneration Committee has delegated responsibility for setting remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. It also determines the conditions of employment of the senior management team. It met seven times during the year and one of its meetings was not pre-scheduled and was convened at short notice. Attendance at meetings held is set out in the table on page 58.

The Remuneration Committee's principal duties in relation to Directors' remuneration include:
- to determine and agree with the Board the framework or board policy for the remuneration of the Chief Executive, the Chairman of the Board, the executive Directors and the Company Secretary, and such other senior management members as it is designated to consider;
- to set remuneration policy so as to ensure that senior management are provided with appropriate incentives (including long term) to encourage performance and are rewarded for their individual contributions to the success of the Company in a fair and responsible manner;
- to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes; and
- to monitor and approve the total remuneration package of the Chairman, each executive Director and relevant senior management members, within the terms of the agreed policy.

The Remuneration Report for year ended 31 December 2013 is set out on pages 61 to 70. At the Annual General Meeting held on 26 April 2013, shareholders were asked to receive and consider the Remuneration Report for year ended 31 December 2012. Shareholders had similarly been asked to vote on the Remuneration Report at each AGM since 2010. These resolutions are often referred to as a 'Say on Pay' resolution. The resolutions were passed by shareholders at each of the AGMs. While it was not mandatory to put such a resolution to shareholders, its inclusion reflected the Group's commitment to continuing to enhance its corporate governance practices. A 'Say on Pay' resolution regarding the Remuneration Report for year ended 31 December 2013 will also be out to shareholders at the forthcoming AGM. The Company is not subject to the United Kingdom's Enterprise and Regulatory Reform Act 2013 requiring a quoted company's remuneration policy to be approved by an ordinary resolution of its shareholders every three years.

The Remuneration Committee engages and considers advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by, and report directly to, the Remuneration Committee. Potential conflicts of interest are considered when remuneration consultants are selected. Any advice from external consultants is used as a guide, and is not a substitute for thorough consideration of all the issues by the Remuneration Committee. During 2013, the Remuneration Committee employed the services of Towers Watson to provide information and advice on remuneration strategy and structure including market benchmarking and best practice. Towers Watson was engaged by, and reported directly to, the Remuneration Committee in respect of these services. In addition to the services it provides to the Remuneration Committee, Towers Watson is engaged to provide communications advice in respect of the IASS pensions issue. Apart from the provision of these services, Towers Watson does not provide other services to the Company.

Appointments Committee

The Appointments Committee of the Board comprises four Non-Executive Directors during 2013, a majority of whom were independent Non-Executive Directors. During 2013 the Appointments Committee consisted of Mr. Laurence Crowley (Chairman), Mr. Colm Barrington, Dr. Colin Hunt and Mr. Tom Moran. The role of the Appointments Committee is to lead the process for considering Board appointments. The Appointments Committee may not be chaired by the Chairman of the Board on any matter concerning the succession to the chairmanship of the Board. The Appointments Committee met eight times during the year and also took a number of decisions by written resolution in lieu of a meeting. Two of its meetings were not pre-scheduled and were convened at short notice. Attendance at the meetings held is set out in the table on page 58.

The Appointments Committee's terms of reference include the following:

- to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- to give full consideration to the leadership needs of the organization, succession planning for Directors and senior management, taking into account the challenges and opportunities facing the Company; and
- to be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Before recommending an appointment, the Committee will evaluate the balance of skills, knowledge and experience of the Board and has regard to the issue of diversity, including gender diversity.

The following is a summary of the principal work undertaken by the Appointments Committee during 2013:

- the Appointments Committee reviewed the Committee structure of the Board;
- the Appointments Committee recommended Non-Executive Director candidates for appointment by the Board;
- the Appointments Committee reviewed the renewal of the change to the terms of appointment of Mr. Francis Hackett; and
- the Committee provided reports to the Board regarding the work of the Committee.

During 2013 the Appointments Committee engaged in a process of recruitment of Non-Executive Director candidates for appointment by the Board. In agreeing criteria for new Non-Executive Director appointments, the Appointments Committee considered differences in skills, experience, background, nationality, geographical spread (by residency) and other qualities, including gender, in determining the optimum composition of the Board with the aim of achieving an appropriate balance of diversity in order to complement the existing range and balance of skills, knowledge and experience on the Board. These criteria were communicated to two professional search firms: an Irish firm (BoardWorks) and an international firm (Egon Zehner). The firms then presented a list of potential candidates including candidates of both genders and of diverse backgrounds for consideration by the Appointments Committee. In determining suitable candidates for recommendation to the Board, the Appointments Committee considered candidates on merit against objective criteria having due regard for the benefits of diversity on the Board and the need for an appropriately sized Board. Neither external search consultancy engaged by the Appointments Committee has any other connection with the Company.

Safety Committee

The Board has a Safety Committee, which assists the Board in discharging its responsibility for safety, including ensuring that adequate safety regulations and procedures are in place across the Group, that such regulations and procedures are complied with and reviewed regularly, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed. Throughout 2013 the Safety Committee was comprised of Mr. Francis Hackett (Chairman), Mr. Colm Barrington, Mr. David Begg and Mr. Christoph Mueller. The Safety Committee met four times during the year. Attendance at meetings held is set out in the table on page 58.

The following is a summary of the principal work undertaken by the Safety Committee during 2013:

- at each of its meetings in 2013, the Committee reviewed reports from management on air safety, health and safety, quality and security;
- the Safety Committee monitored and tracked the implementation of required actions arising from the reports from management on air safety, health and safety, quality and security; and
- the Safety Committee provided reports to the Board regarding the work of the Committee.

Risk Committee

The Board has a Risk Committee, which was established to consider the significant risks facing the Group (other than those relating to safety) and the manner in which they are addressed, and to recommend to the Board the most effective way of assessing these risks. The Risk Committee jointly conducts with the Audit Committee, an annual review of Aer Lingus' system of internal financial control and risk management systems and reports to the Board in this regard.

During 2013 the Risk Committee consisted of Dr. Colin Hunt (Chairman), Mr. David Begg, Mr. Montie Brewer, and Ms. Mella Frewen. The Risk Committee met five times during the year. One of its meetings was not pre-scheduled and was convened at short notice. Attendance at meetings held is set out in the table on page 58.

The following is a summary of the principal work undertaken by the Risk Committee during 2013:

- the Risk Committee jointly conducted (with the Audit Committee), an annual review of Aer Lingus' system of internal financial control and risk management systems and reported to the Board in this regard;
- the Risk Committee reviewed and approved the Company's Corporate Risk Assessment Process for 2013 and reported to the Audit Committee and Board in this regard;
- throughout 2013, the Risk Committee monitored key risks facing the Group and considered detailed reports from management in relation to these risks; and
- the Risk Committee provided reports to the Board regarding the work of the Committee.

Communications with shareholders

The Company attaches considerable importance to shareholder communication and has established an Investor Relations programme. This programme includes the following elements:

- regular dialogue with institutional investors, fund managers, sellside and buyside analysts on key business issues through meetings with the CEO, the CFO, executive management and senior management;
- results webcasts related to the issue of the preliminary results and the half yearly report;
- investor roadshows and conference calls;
- issuance of monthly traffic statistics;
- issuance of the Annual Report and the half yearly report;
- issuance of preliminary annual results announcements and Q1 and Q3 interim management statements;
- investor relations section on the Group's website, including full text of financial results, press releases, results presentations, traffic statistics, analyst coverage and calendar of events;
- AGM section on the Group's website including the Notice of AGM, the statement of AGM procedures, the Articles of Association, form of proxy, financial statements, AGM related announcements, results of AGM and historic results. The statement of AGM procedures outlines the manner in which shareholders can table agenda items, resolutions and submit questions in advance of the meeting;
- at the AGM, individual shareholders are able to question the Chairman and the Board; and
- the Company also responds throughout the year to numerous queries from shareholders on a wide range of issues.

In addition, the Board has taken the following steps to ensure that its members (particularly Non-Executive Directors) develop an understanding of the views of major shareholders:

- the Chairman ensures that the views of shareholders are communicated to the Board as a whole and also discusses governance and strategy with major shareholders where appropriate;
- the Chairman and Senior Independent Director are available to attend meetings with shareholders to develop a balanced understanding of their views and concerns;
- Non-Executive Directors are available to attend meetings where requested by major shareholders.

Description of internal control and risk management systems

In addition to the description below, the following sections of the Company's Annual Report shall be treated as forming part of the Board's description of the main features of the Group's internal control and risk management systems in relation to the process for preparing the Company's consolidated accounts:

- the description of the principal risks and uncertainties which the Group faces on pages 31 to 37;
- details regarding financial risk management are set out at Note 3 to the consolidated financial statements;
- the description of how the Audit Committee discharged its obligations throughout the year on page 55; and
- the description of the Risk Committee on pages 56 to 57.

The Board acknowledges that it is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

As recommended by the revised guidance for Directors on internal controls (The Turnbull Guidance, October 2005) there is an ongoing Corporate Risk Assessment Process for identifying, evaluating and managing the significant risks faced by the Group, in the areas of financial, operational and compliance controls and risk management systems. The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and financial statements and its outputs inform the preparation of the Group's consolidated accounts. The process involves the Board considering:

- the nature and extent of the key risks facing the Group;
- the likelihood of these risks occurring;
- the impact on the Group should these risks occur;
- the actions being taken to manage these risks at the desired level; and
- the procedures in place to monitor these risks.

The risks facing the Group are regularly reviewed by management and the Risk Committee (as delegated to it by the Audit Committee, whose terms of reference require it to keep under review the effectiveness of the Company's internal controls and risk management systems).

In accordance with the process outlined above, the Board confirms that it has conducted an annual review of the effectiveness of the Group's risk management and the internal control systems in operation and that it has approved the reporting lines to ensure the ongoing effectiveness of the internal controls and reporting structures. This review included a review of all material controls, including financial, operational and compliance controls and risk management systems. In its review the Board considered the changes since the last annual assessment in the nature and extent of the risks faced by the Group; the scope and quality of management's ongoing monitoring of risks; the communication of the results of the monitoring to the Board and Board Committees; the incidence of control failings or weaknesses that have been identified; and the effectiveness of the Group's financial reporting process. The description of the principal risks and uncertainties that the Group faces are set out on pages 31 to 37. The Board evaluates these risks as required and thereby determines its and the Group's risk tolerance in the implementation of strategy.

In addition to the matters described above, the other elements of the Group's internal control and risk management systems in relation to the process for preparing the Company's consolidated accounts are as follows:

- clearly defined organisation structures and lines of authority;
- employment of competent persons;
- a strong and independent Board that meets regularly during the year, with separate Chairman and Chief Executive roles;
- corporate policies for financial reporting, treasury and financial risk management, information technology and security, project appraisal and corporate governance;
- Board of Directors approval of all major strategic decisions;
- clearly defined process and information system for controlling capital expenditure including use of appropriate authorisation levels;
- long term business plan;
- detailed annual budget process, with budget reviewed and approved by Board;
- monthly monitoring of historic and forecast performance against budget which is reported to the Board;
- comprehensive system of internal financial reporting which includes preparation of detailed financial statements and key performance indicators on a monthly basis and the preparation of the year end consolidated financial statements;
- an internal audit function which reviews and reports on key business processes and controls;
- corporate compliance monitoring;
- an audit committee which approves audit plans and deals with significant control issues raised by internal or external audit; and
- regular communication with external auditors

Any system of internal control can provide only reasonable and not absolute assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system operated effectively throughout the financial year and up to the date that the financial statements were signed.

Going concern
After making enquiries, considering the net cash available at the reporting date and considering the projections in the Group's 2014 budget and five year plan, the Directors consider that the Company has adequate resources to continue operating for the foreseeable future. For this reason they have continued to adopt the going concern basis in preparing the financial statements.

Accountability and audit
A statement relating to the Directors' responsibilities in respect of the preparation of the financial statements is set out on pages 50 to 51 with the responsibilities of the Company's Independent Auditors outlined on pages 75 to 78.

Table 1.1 Attendance at Board and Board Committee meetings in the year ended 31 December 2013
The attendance statistics are outlined below in the format "A/B", where 'A' represents the number of meetings attended by the Director and 'B' represents the total number of meetings held at which that director was entitled to attend.

Name	Position	Board	Committees				
			Audit	Remuneration	Appointments	Safety	Risk
Colm Barrington	Chairman	9/9		7/7	8/8	4/4	
David Begg	Director	9/9				4/4	5/5
Montie Brewer	Director	9/9	2/3				3/5
Laurence Crowley	Director	9/9	11/11		8/8		
Mella Frewen	Director	9/9					5/5
Danuta Gray	Director	9/9	11/11	7/7			
Francis Hackett	Director	9/9				4/4	
Dr. Colin Hunt	Director	8/9			8/8		5/5
Andrew Macfarlane	Chief Financial Officer	9/9					
Tom Moran	Director	7/9	11/11		8/8		
Christoph Mueller	Chief Executive Officer	9/9				3/4	
Nicola Shaw	Director	9/9	9/11	7/7			
William Slattery	Director	3/3					

General meetings
The Company's Annual General Meeting (AGM), which is held in Ireland, affords individual shareholders the opportunity to question the Chairman and the Board. It is the Company's policy for all Directors to attend the AGM. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 21 working days before the meeting. At the meeting, resolutions are ordinarily voted on by means of a show of hands. The votes of shareholders present at the meeting are added to the proxy votes received and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice.

A quorum for a general meeting of the Company is constituted by seven or more shareholders entitled to vote, each being a member or a proxy for a member or a duly authorised representative of a corporate member. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. To be passed, a special resolution requires a majority of at least 75% of the votes cast.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies record dates for general meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notes to the Notice of a General Meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the notes to the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least 5% of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least 3% of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion in the agenda of a general meeting, subject to any contrary provision in Irish company law.
The Group's website, www.aerlingus.com, contains information in respect of the Company's annual general meeting.

Regulation 21 of European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006)
Information Required under Regulation 21(2)(c), (d), (f), (h) and (i) of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006)

For the purpose of Regulation 21(2)(c), (d), (f), (h) and (i) of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 47 (Substantial Interests in Share Capital), page 53 (Terms of Appointment), page 53 (Retirement and Re-election), page 66 (Non-Executive Directors, Executive Directors and Service Contracts), page 50 (Issue and Purchase of own shares and Share Ownership Restrictions), in Note 30 to the consolidated financial statements (Called-Up Share Capital) and in Note 31 to the consolidated financial statements (Share Premium, Capital Conversion Reserve Fund and Other Reserves) are deemed to be incorporated in this Report. The Company's rules in respect of the appointment and replacement of Directors of the Company and amendment of the Company's Articles of Association are set out in the Company's Memorandum and Articles of Association and the relevant Articles of the Company's Memorandum and Articles of Association are hereby incorporated by reference in this Corporate Governance Statement.

For the purpose of Regulation 21 of European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings in Note 11 to the consolidated financial statements (Employee Benefits), in Note 32 to the consolidated financial statements (Employee Participation), in Notes 25 and 26 to the consolidated financial statements (Defined Contribution Pension Schemes and Post Employment Benefit Obligations) and in Note 31 to the consolidated financial statements (Share Premium, Capital Conversion Reserve Fund and Other Reserves - Long Term Incentive Plan) are deemed to be incorporated in this Report together with the information given in the Corporate Governance Statement above.

The Chief Executive is entitled, having obtained the prior consent of the Remuneration Committee, to terminate his employment within six months of a change of control if the Chief Executive has reasonable grounds to contend that such change of control has resulted or will result in a diminution of his powers, duties or functions in relation to the Company or if, as a consequence of the change in control, a contract of employment which is less beneficial to the Chief Executive is offered to the Chief Executive which he declines to agree and upon such termination the Company is obliged to pay the Chief Executive an amount equal to one years basic salary for the financial year of the Company immediately preceding such termination. In the absence of the Remuneration Committee giving its consent, the Company is not obliged to make the foregoing payment to the Chief Executive in the circumstances described.

The Group has signed an agreement with Dublin Airport Authority plc (the "DAA") for hangarage at Dublin Airport, under which one of the requirements of the DAA is that the agreement may be terminated by the DAA if a change in control occurs with respect to the Company which results in the Company and its associated companies controlling a majority of hangarage space (measured by floor area) at Dublin Airport.

From time to time, the Company has entered into codeshare agreements with other airlines as well as aircraft finance leases and exchange and interest rate hedging contracts with financial institutions. These agreements contain provisions which allow for their early termination in the event of a change of control.

Directors' statement pursuant to the Transparency Regulations
Each of the Directors, whose names and functions are listed on pages 38 to 40 confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position of the Company and the Group and of the profit of the Group and;
- the Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board of Directors

COLM BARRINGTON Chairman	CHRISTOPH MUELLER Director

27 March 2013

Report of the Remuneration Committee on Directors' Remuneration

Letter from the Continuing Members of the Remuneration Committee

Dear fellow shareholders,

Introduction

2013 was another successful year for Aer Lingus. In a challenging trading environment, the strategy pursued by the business has grown revenues and passenger numbers and delivered a fourth consecutive year of profitability. As a result, the Board has the confidence necessary to recommend the payment of a dividend of €0.04 per share in 2014. This recommendation follows the payment of a dividend of four cent per share last May, which represented a cash return to shareholders of €21.3 million in 2013, an increase of 33.3% on the dividend paid in 2012.

The continued profitability of the business, and resulting ability to ensure consistent returns for shareholders, is achieved through the successful delivery of a constantly evolving sustainable business model by a well motivated leadership team. Remuneration policy is critical in that regard and, at Aer Lingus, remuneration policy at executive and management level is designed to incentivise delivery on ever-stretching performance targets that are aligned firmly with the interests of shareholders.

This is achieved through a policy of establishing fixed pay at or below the median of companies of comparable size and complexity and providing the opportunity to excel on variable pay through the annual performance of the business and the long term delivery of shareholder value. As a result, there is a direct link created between the value generated for shareholders and the aggregate amount paid to members of the executive and senior management each year, with performance assessed annually against a range of financial and strategic non-financial targets.

The below Remuneration Report details the 2013 outcomes for the tools used by the Remuneration Committee in this regard, namely bonus payments pursuant to the Performance Related Pay Scheme and share awards pursuant to the terms of the Long Term Incentive Plan ("LTIP"), of which we give a summary in this letter.

Disclosure

As demonstrated in the body of this Remuneration Report, Aer Lingus remains committed to comprehensive disclosure on remuneration arrangements. Detailed disclosure in the Remuneration Report provides shareholders with clarity and transparency on remuneration arrangements and it allows shareholders the opportunity to provide feedback to the Board. In addition, and in line with the commitment of Aer Lingus to best practice in corporate governance, shareholders will have the opportunity to register their views on the contents of this Remuneration Report by voting on the resolution to be proposed at the Annual General Meeting scheduled for 2 May 2014.

Pay Components

In fulfilling its obligations the Remuneration Committee determines variable pay (through the terms of the Performance Related Pay Scheme and awards under the LTIP) and fixed pay (salary, pension and related benefits) of executive directors and other senior management.

2013 Fixed Pay

In line with 2012, against the ongoing challenging market backdrop, and a broader market expectation for public companies generally to exercise pay restraint at a senior level, there were no changes to fixed pay arrangements of the executive directors in 2013 save for an increase in the Chief Executive Officer's pension contribution as detailed in the Remuneration Report below. There has been no increase in the base salary of the Chief Executive Officer since it was set at its current level in 2009.

Consistent with this approach, and again in line with 2012, there was also no change to the Chairman's fee or non-executive directors' fees during 2013. These fees are well below the normal level payable to directors of Irish public companies.

2013 Performance Related Pay Scheme

The performance of Aer Lingus in 2013, although solid, was such that bonuses earned by the executive directors pursuant to the terms and demanding targets set in 2013 Performance Related Pay Scheme are at the lower end of the range between threshold and target. Further details are set out in the Remuneration Report below.

CEO Remuneration

In the 2011 and 2012 Annual Reports, the Remuneration Committee flagged its intention to introduce revisions to the Chief Executive Officer's remuneration arrangements in order to retain and motivate the Chief Executive Officer to continue to deliver the level of superior performance he had given since his appointment in 2009. Due to the offer period restrictions pursuant to Irish Takeover Panel Rules following Ryanair's unsuccessful 2012 offer for Aer Lingus, the Remuneration Committee was unable to implement those revisions in 2012. Following the European Commission's announcement on 27 February 2013 prohibiting Ryanair's takeover bid, the Remuneration Committee, with the approval of the Board, made adjustments to the Chief Executive Officer's remuneration arrangements consisting of a once-off cash bonus award; an increased level of LTIP award in 2013 and 2014 (within the existing plan rules limit) and an increase in employer pension contribution. Further details are set out below in the Remuneration Report. The Remuneration Committee believes that it is critical and in the best interests of shareholders to retain and motivate the Chief Executive Officer, who is a key driver of the success of Aer Lingus since his appointment in September 2009.

Special Bonus for Key Management

In January 2013 the Remuneration Committee approved the recommendation of the Chief Executive Officer that a once-off special bonus retention incentive arrangement be paid in respect of 12 key senior management (not including the Chief Executive Officer or Chief Financial Officer) in recognition of the exceptional performance of these managers in 2012 during and following the period of Ryanair's unsuccessful take-over bid for Aer Lingus. The retention element to this payment involved making the payment in two tranches: one-third on approval of the 2012 operating result by the Audit Committee and the remaining two-thirds being withheld until December 2013 subject to the recipient remaining in the employment of Aer Lingus on that date.

Long Term Incentive Plan

The 2011 LTIP award (covering the performance period 1 January 2011 to 31 December 2013) vested on 24 February 2014. This is the second award that has vested under the scheme since its introduction in 2007 and reflects the significant transformation that has been achieved since 2009. Based on the measurement of "total shareholder return" over the performance period, the LTIP awards vested at 33.4% in 2013. Further details are set out in the body of this Remuneration Report.

The Remuneration Committee has conducted a review of the terms of the Company's LTIP in 2013 and has engaged and consulted with a number of institutional shareholders regarding proposed changes to the LTIP. The review and consideration of the matter is on-going.

Conclusion

Remuneration at Aer Lingus is aligned with the interests of shareholders and continues to be primarily weighted to performance. Despite difficult trading conditions, particularly in the second half of the year, Aer Lingus has delivered a strong trading performance in 2013 and the variable components of executive remuneration reflect the extent of that performance. Through the detail set out in this Remuneration Report, the Remuneration Committee has aimed to provide shareholders with the level of clarity and transparency on remuneration necessary so as to ensure that shareholders may exercise an informed and considered vote on its contents at the Annual General Meeting, thereby affording shareholders the opportunity to have a "say-on-pay" at Aer Lingus.

Yours faithfully,

COLM BARRINGTON Member Remuneration Committee	NICOLA SHAW Member Remuneration Committee

27 March 2014

Report of the Remuneration Committee on Directors' Remuneration

Unaudited Information

The Remuneration Committee
The Remuneration Committee of the Board is composed of three independent non-executive directors. Throughout 2013 the membership of the Remuneration Committee comprised Ms. Danuta Gray (Chairman), Mr. Colm Barrington and Ms. Nicola Shaw. The Chairman of the Board, who was independent on appointment, is deemed to be an independent member of thr Remuneration Committee. Ms. Gray retired from the Board on 31 December 2013 and Mr. Nigel Northridge, who was appointed to the Board with effect from 1 January 2014, was appointed Chair of the Remuneration Committee on and with effect from 23 January 2014.

The Remuneration Committee determines, in line with its terms of reference, the remuneration policy in respect of the executive directors, the Chairman of the Board, the Company Secretary and the other members of senior management and monitors and approves these total remuneration packages within the terms of the agreed policy. The Remuneration Committee is also required to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes.

In making its decisions the Remuneration Committee can seek advice from the Chief Executive Officer and the Chief People & Change Officer, who are invited to attend its meetings as and when appropriate. The Remuneration Committee can obtain external advice from independent firms of remuneration consultants where necessary.

The remuneration of Non-Executive Directors is a matter for the Chairman of the Board and the Executive Directors. No individuals are involved in any decisions on their own remuneration.

Remuneration Policy
The overriding aim of the Company's remuneration policy is to ensure that Executive Directors and senior managers are provided with appropriate incentives and rewarded for delivering shareholder value and contributing to the success of the Company in a fair and responsible manner.

Remuneration arrangements are designed to enhance the focus of Executive Directors and senior managers on the achievement of the Company's strategy and to align their interests with those of shareholders. Remuneration at Aer Lingus is primarily based on three principal elements:

- fixed pay, including basic salary, pension and related benefits;
- annual bonus; and
- long-tem incentive.

Fixed pay is generally at the median or below comparable market rates with the executive directors and senior management given the opportunity to excel on variable pay through the annual performance of the business and the long term delivery of shareholder value.

This incentive weighted structure is designed to reinforce both short-term and long-term behaviour that aligns with the strategic priorities and the long-term success of the business, thereby delivering value for shareholders. The incentive weighted structure is also designed to be aligned with the Company's policy with regard to risk. In this regard the Audit Committee will draw the attention of the Remuneration Committee to any internal control or accounting issues that the Audit Committee believes should be taken into account when determining remuneration. During the year, remuneration of Executive Directors and senior management was benchmarked against both publicly quoted and private companies in Ireland and the design of our remuneration arrangements was benchmarked against peer group airlines.

In 2013 the Remuneration Committee retained Towers Watson as its external remuneration consultants to provide information and advice on remuneration strategy and structure, including market benchmarking and best practice. Towers Watson also provided the Company with market remuneration data for other senior management roles and advice in relation to proposed amendments to the LTIP for shareholder approval at the 2014 Annual General Meeting, further details of which are outlined below. Towers Watson was engaged by, and reported directly to, the Remuneration Committee in respect of these services. In addition to the services it provides to the Remuneration Committee, Towers Watson is engaged to provide communications advice to multiple parties in respect of the proposed resolution of the IASS pensions issue. Apart from the provision of these services, Towers Watson does not provide other services to the Company.

Remuneration Committee meetings during 2013
The Remuneration Committee met seven times during 2013. Attendance at meetings held is set out in the table on page 58. The following is a summary of the principal work undertaken by the Remuneration Committee in 2013:

- consideration and approval of the 2013 remuneration arrangements for Executive Directors and other senior managers;
- assessment and agreement of achievement levels against annual Performance Related Pay Scheme targets for 2012 for executive directors and other senior managers;
- assessment of the proposal and agreement of the level of award for the special bonus for key management for 2012 paid to 12 key senior managers in 2013;
- assessment and agreement of the achievement levels against Greenfield Cost Reduction Program targets for 2012 for employee gain-sharing incentives;
- review and approval of the 2013 share award grants under the Company's LTIP to Executive Directors and other senior managers;
- consideration of the outcome of the performance conditions for the LTIP share awards granted in 2010;
- consideration and approval of the settlement arrangements for the LTIP share awards granted in 2010 in order to facilitate discharge of the attendant withholding tax obligation;
- consideration and approval of the Remuneration Report for inclusion in the Annual Report in respect of the financial year ending 31 December 2012;
- consideration and approval of revisions to the remuneration arrangements of the Chief Executive Officer in order to retain and motivate him to deliver superior performance;
- determination of the vesting of the second tranche of a 2009 share option award to the Chief Executive Officer; and

- consideration of changes to the design of the LTIP to ensure further alignment with the long term financial performance of the Company.

Executive Directors
Mr. Christoph Mueller (Chief Executive Officer) was an executive director throughout 2013. The remuneration package for Mr. Mueller as executive director consists of basic salary, annual performance related bonus, a pension contribution, premium-priced share options over shares in the Company agreed as part of his recruitment arrangements in 2009, shares awarded under the Company's LTIP, health insurance and a car allowance. Mr. Mueller is also a member of the Company's death in service and income protection plan. Mr. Mueller does not receive any additional fees for serving as a director of the Company. While Mr. Mueller's basic salary is subject to annual review, he has voluntary agreed to freeze it at €475,000. This is the initial basic salary that was agreed on his appointment in 2009 and itself represented a voluntary reduction from the applicable market rate.

In 2011, the Board consented to Mr. Mueller accepting an appointment to the Board of Tourism Ireland as a non-executive director. Mr. Mueller retains his fees of €7,965 per annum from this external directorship.

In 2013, the Board consented to Mr. Mueller accepting an appointment to the Board of An Post as Chairman. Mr. Mueller retains his fees of €24,150 paid in 2013 from this external directorship.

The Committee believes that it is critical and in the best interests of shareholders to retain and motivate the Chief Executive Officer. A significant transformation of the business has been delivered since the Chief Executive Officer's appointment in September 2009. The Company's new commercial strategy, along with a successful cost reduction programme, has transformed Aer Lingus, delivering four consecutive years of operating profit (following an operating loss of €81 million incurred by the airline in 2009). In the 2011 and 2012 Annual Reports, the Remuneration Committee flagged its intention to introduce revisions to the Chief Executive Officer's remuneration arrangements in order to retain and motivate the Chief Executive Officer to continue to deliver superior performance. The changes were delayed due to the restrictions of the offer period pursuant to the Irish Takeover Panel Rules which commenced on 19 June 2012 (the day on which an offer was announced for the Company). Following the European Commission's announcement on 27 February 2013 to prohibit the takeover bid, the Remuneration Committee and the Board made the following adjustments to the Chief Executive Officer's remuneration arrangements:

- a once-off cash bonus award of €400,000;
- LTIP awards in 2013 and 2014 to be at an increased level of 150% of salary (within the existing plan rules limit), after which it is anticipated that the level of award will revert back to the previous level of 100% of salary; and
- the level of the employer pension contribution increased from 25% to 40% of base salary.

No change has been made to the Chief Executive Officer's base salary level to avoid any "ratchet" effect. The increase in pension contribution has no ratchet effect on short and long-term incentives. The purpose of the one-off cash bonus was to recognise and reward the Chief Executive Officer's exceptional contribution to the Company's successful business transformation and performance against the backdrop of a third unsuccessful hostile takeover bid for the Company by Ryanair which, had it not been well managed, could have represented a significant distraction to the Aer Lingus management team. The LTIP awards will vest subject to performance conditions so the Chief Executive Officer will only receive any additional potential value if the Company achieves stretching targets set by the Remuneration Committee.

Mr. Andrew Macfarlane (Chief Financial Officer) was an executive director throughout 2013. The remuneration package for Mr. Macfarlane as executive director consists of basic salary (which is subject to an annual review, but not necessarily increased), annual performance related bonus, a pension contribution, shares awarded under the Company's LTIP, health insurance and a car allowance. Mr. Macfarlane is also a member of the Company's death in service and income protection plan. Mr. Macfarlane does not receive any additional fees for serving as a director of the Company.

Further details of the payments and benefits received by the executive directors are set out in Table 2.1.

Basic Salary Reviews
The basic salaries of executive directors are reviewed annually with regard to personal performance, Company performance, changes in responsibilities and market practice. Following the review in 2013, and consistent with the Company's desire to exercise pay restraint, no changes were made to basic salaries.

2013 Performance Related Pay Scheme
Performance related bonuses are payable to executive directors and senior managers for meeting clearly defined and stretching annual profit targets and strategic goals set and monitored by the Remuneration Committee. In setting meaningful targets for the 2013 Performance Related Pay Scheme, the Remuneration Committee was mindful of the need to maintain profitability while also recognising the importance of motivating and retaining management to drive sustainable performance.

The terms of the 2013 Performance Related Pay Scheme subjected bonuses to a cap of 150% of basic salary for the Chief Executive Officer, 100% of basic salary for certain senior executives, 75% of salary for certain other senior executives and 40% and 30% respectively for the other two categories of senior management. The performance-related targets were weighted 70% towards the achievement of a clear financial performance target and 30% on the achievement of measurable non-financial targets related to customers and people. The financial performance criteria in 2013 comprised stretching operating profit targets to align with the goal of maintaining profitability. The strategic non-financial performance criteria set stretching goals in the areas of punctuality targets and people targets. Payout was limited to a pool driven by the above performance measures. Individual payouts for executive directors and selected senior managers were 75% based on the corporate performance and 25% based upon the achievement of individual targets. Individual payouts for the remainder of the senior management team were 30% based on the corporate performance and 70% based upon the achievement of individual targets. This emphasis on individual targets allowed the Company to take account of the subtlety and complexity of the work undertaken at this level and to focus participants on the right financial and strategic outcomes. The Company achieved its targets for the 2013 financial year at the lower end of the range between the threshold and target levels set by the plan. The bonus payments to the Chief Executive Officer and to the Chief Financial Officer are €420,000 and €177,310 respectively (88.4% of basic salary and 53.7% of reduced basic salary respectively).

Executive directors are not required to defer their annual bonuses or convert them into shares. Performance versus the corporate targets in 2013 is illustrated in the table below:

Targets	Funding Potential at Maximum	Outcome 2013
Financial Targets	70%	Threshold - Target
Strategic Non-Financial Targets	30%	Threshold - Target
Total	100%	41%

Special Bonus for Key Management
The Remuneration Committee approved the recommendation of the Chief Executive Officer that a once-off special bonus retention incentive arrangement be paid in respect of 12 key senior management (not including the Chief Executive Officer or Chief Financial Officer) in recognition of the exceptional performance of these managers during and following the period of Ryanair's unsuccessful take-over bid for Aer Lingus. No further awards will be made under this scheme. The bonus was paid in 2013. In each case the bonus amount equalled the amount awarded to an individual manager pursuant to the 2012 Performance Related Pay Scheme. The bonus was payable in two tranches: the first tranche (one-third) on approval of the 2012 operating result by the Audit Committee and the second tranche (the remaining two-thirds) withheld until December 2013 subject to the manager remaining in the employment of the Company or its subsidiaries on that date. No further awards will be made under this bonus arrangement.

2014 Performance Related Bonuses
The structure of the 2014 Performance Related Pay Scheme is largely similar to that which applied in 2013. In 2014, the Company will continue to focus its executive directors and senior managers on the sustainable performance and health of the Company with annual performance related bonus opportunities. The continued emphasis on individual targets allows the Company to take account of the subtlety and complexity of the work undertaken at this level and to focus participants on the right financial, strategic and project outcomes.

Employee Gain-Sharing Incentive
In 2009, a provision was made for employee gain-sharing incentives for the Greenfield Cost Reduction Program. 3,700 of the Group's employees are eligible to participate. Executive Directors and senior management are not eligible to participate in these gain-sharing incentives. The payment of the gain-sharing incentives was contingent on a minimum level of profitability in a given fiscal year and the achievement of the Greenfield Cost Reduction Program targets. The required minimum level of profitability was achieved in 2013 and the Greenfield Cost Reduction Program targets had already been achieved and therefore €6.25 million would ordinarily be payable to employees under these arrangements in respect of the final year of the Greenfield Cost Reduction Program.

Notwithstanding this, the Remuneration Committee decided to exercise its discretion not to pay the full amount of the gain-sharing payment to employees at the point publication of the Remuneration Report given the fact that: (a) the Labour Court Recommendations regarding the IASS pensions scheme have not yet been implemented; and (b) there is an on-going Pilot Pay Review process underway. The conclusion of the processes relating to both these matters could affect the gain-sharing payments payable under the arrangements agreed in 2009. In the interim the Remuneration Committee has exercised its discretion to make a payment of €250 per person on account. This amount would represent a part-payment of the final gain share payment. The Committee will re-visit later in 2014 the issue of the payment of the balance of the amount payable under the gain-sharing arrangements.

Long Term Incentive Plan
The Company operates a Long Term Incentive Plan (LTIP), which has been in place since 2007. Awards under the LTIP can be made on an annual basis at the discretion of the Remuneration Committee. Conditional awards of shares are granted to executive directors and senior managers under the LTIP. The LTIP is a share based long-term performance award scheme which provides for the vesting of shares subject to the achievement of minimum performance objectives, as specified by the Remuneration Committee. In order to promote the long term sustainability of the Company, the performance conditions are measured over a three-year period and are linked to the Company's long term value creation.

As part of a review of the Company's executive remuneration strategy, in 2010 the Remuneration Committee modified the performance objectives for LTIP awards. The 2010, 2011, 2012 and 2013 performance conditions consist of "total shareholder return" ("TSR") measured 50% against a comparator group of European airlines and 50% against the companies in the ISEQ General Index. TSR measures the change in value for shareholders arising from changes in the Company's share price plus the returns that would arise for shareholders if dividends were reinvested in the Company's shares on the relevant ex-dividend date, net of corporation tax but before income tax. The following financial underpin also applies: positive cumulative EBITDAR (before exceptional items) of at least €100 million during the performance period and positive EBITDAR as shown in the Company's financial accounts in the final year of the performance period (before exceptional items).

The maximum award under the rules of the LTIP is 150% of base salary. Under the rules of the scheme the maximum number of shares that can vest is set at 125% of the shares which are the subject of the award, for superior performance. However for the awards made in 2012 and 2013, the Remuneration Committee determined that the maximum number of shares that will be capable of vesting will be reduced to 100% of the awards. Awards under the LTIP can be made on an annual basis at the discretion of the Remuneration Committee. There is no requirement in the LTIP for shares to be held for a period following vesting.

Following a determination by the Remuneration Committee, the 2011 LTIP award (covering the performance period 1 January 2011 to 31 December 2013) vested on 24 February 2014 at 33.4% of the shares which were the subject of the award. This is the second award that has vested under the scheme since its introduction in 2007 and reflects the significant transformation that has been achieved since 2009. Measuring TSR over the performance period, Aer Lingus ranked number 4 of 9 companies in the comparator group of European airlines and number 24 of 36 in the comparator group of companies in the ISEQ General Index. The other companies in the comparator group of European airlines were: Easyjet plc, Ryanair Holdings plc, Deutsche Lufthansa AG, International Airlines Consolidated Group, S.A., Finnair Oyj, Air France - KLM, Air Berlin plc and SAS AB.

On 24 February 2014, 200,400 shares vested to the Chief Executive Officer and 167,000 shares vested to the Chief Financial Officer in respect of the 2011 LTIP award. The 2013 award made to the Chief Executive Officer was of a face value of 150% of 2013 basic salary and the award made to the Chief Financial Officer was of face value of 99% of 2013 unreduced basic salary.

Information regarding LTIP awards to executive directors is set out in Table 2.4 on page 70.

A review of the LTIP scheme was conducted in 2013 for the purpose of considering whether a revised or replacement Long Term Incentive Scheme should be put in place. Having regard to the importance of taking shareholder views into account when developing remuneration arrangements for senior executives, the Remuneration Committee has undertaken a process of engagement with a number of Aer Lingus' largest institutional shareholders on proposed changes to the LTIP. The Remuneration Committee's review and consideration of the matter is on-going. In the interim, awards under the LTIP in 2014 will be made exactly on the same basis as in 2013.

Share Option Grant for the Chief Executive Officer on Recruitment

As announced on 9 September 2009, Mr. Christoph Mueller was granted share options at the time of his recruitment in respect of 1,500,000 shares in the Company, with effect from the 8 September 2009. The share options vest and become exercisable provided the closing price of the Company's shares remain above certain fixed prices (detailed below) for at least 25 of the 40 days prior to certain specific dates and further details relating to the options are set out in Table 2.3 on page 70. The Remuneration Committee selected performance criteria which it believes have been sufficiently stretching to reasonably incentivise Mr. Mueller to deliver value for Aer Lingus shareholders.

The share option grant was disclosed in the Remuneration Reports contained in the 2009, 2010, 2011 and 2012 annual reports, with each such Remuneration Report being approved by shareholders at the respective annual general meeting.

In September 2013, the Remuneration Committee determined that the performance criteria in respect of the second tranche of 500,000 share options granted to Mr. Mueller had been achieved, as the closing market share price of €1.60 was achieved on at least 25 of the 40 days prior to 7 September 2013. The share options in respect of this tranche of 500,000 shares vested on 7 September 2013 and are exercisable at a price of €0.677 per share.

Service Contracts

The Company has a service contract or letter of appointment with all Board members.

Executive Directors

All service contracts with executive directors are on similar terms and have notice periods of 12 months or less and comply with the recommendations in regard to payments on termination in paragraph D.1.4 and D.1.5 of the 2012 UK Corporate Governance Code and paragraph 3.5 of the EU Commission 2009 Guidance on Remuneration.

Non-Executive Directors

The terms upon which each of the non-executive directors has been appointed are set out in letters of appointment which reflect the form recommended by the 2012 UK Corporate Governance Code. It is the Company's policy that each non-executive director is appointed for a fixed period not exceeding three years (with the potential for a second three year term), subject to satisfactory performance and re-election at any annual general meeting where this is required. Recommendation to shareholders for the election of non-executive directors beyond six years will only be made following review by the Board. No non-executive director is a party to any service contract with the Company that provides for benefits upon termination.

Non-Executive Directors' Fees

Non-executive directors are remunerated by way of directors' fees. Non-executive directors' fees are not pensionable and are not performance related. They are not eligible to participate in any Aer Lingus bonus scheme or other share related incentive schemes.

Throughout the year ended 31 December 2013, non-executive directors' fees were set at €32,400 per annum, the fees for the chairman of the Board were set at €126,000 per annum and an additional fee of €7,200 per annum was payable to the chairman of the Audit Committee. These fees were reduced voluntarily in 2009 from €175,000 per annum for the chairman of the Board and €45,000 per annum for non-executive directors. Notwithstanding that voluntary reduction from 2009 levels, director fees were maintained at the reduced current level during 2013.

As disclosed on 24 September 2012, in addition to his normal responsibilities as a director of the Company, the Board asked Mr. Francis Hackett to take on additional responsibility in chairing a legal committee to support management in relation to the Company's application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters. Mr. Hackett's terms of appointment were amended in order to reflect his assumption of these additional responsibilities. Mr. Hackett was paid fees of €122,000 in 2013 in respect of these additional responsibilities.

Directors' Concessionary Travel

Directors and dependent members of their families can avail themselves of concessionary travel on Aer Lingus services. The concession applies to their travel on vacation and is on a space available basis. It is not available for their own individual business purposes. The Company has obtained the approval of the Office of the Revenue Commissioners for the level of reimbursement charge to be applied to such concession travel to defray the marginal cost to the Company of the seat.

Directors' Remuneration
Disclosures regarding directors' remuneration have been drawn up on an individual director basis in accordance with the requirements of both the 2012 UK Corporate Governance Code and the Irish Stock Exchange.

Directors' Pension Benefits
Information regarding the pension benefits of the directors is outlined in Table 2.1 on page 68. The Company is required to make a contribution at a rate of 25% of basic salary to pension arrangements as agreed with Mr. Andrew Macfarlane and, since implementation of revised remuneration arrangements for the CEO in March 2013, a contribution at the increased rate of 40% of basic salary to pension arrangements as agreed with Mr. Christoph Mueller.

Directors' Shareholdings
The interests of the directors in office at 31 December 2013 in the shares of the Company are outlined in Table 2.2 on page 69.

Audited Information

The information on pages 68 to 70 forms part of the financial statements.

		Basic Salary and fees	Pension contribution	Annual Performance Related Bonus	Special 2013 Bonus	Other benefits (1)	Total 2013	Total 2012
		€'000	€'000	€'000	€'000	€'000	€'000	€'000
Christoph Mueller	**(2)**	475	175	420	400	51	1,521	1,293
Andrew Macfarlane	**(3)(4)**	330	107	177	-	55	669	876
		805	**282**	**597**	**400**	**106**	**2,190**	**2,169**
Colm Barrington		126	-	-	-	-	126	126
David Begg		32	-	-	-	-	32	32
Montie Brewer		32	-	-	-	-	32	32
Leslie Buckley	**(5)**	-	-	-	-	-	-	16
Laurence Crowley	**(6)**	37	-	-	-	-	37	40
Mella Frewen		32	-	-	-	-	32	32
Danuta Gray		32	-	-	-	-	32	32
Francis Hackett	**(7)**	154	-	-	-	-	154	108
Dr. Colin Hunt		32	-	-	-	-	32	32
Thomas Moran		32	-	-	-	-	32	32
Nicola Shaw	**(8)**	34	-	-	-	-	34	32
William Slattery		15	-	-	-	-	15	N/A
		558	-	-	-	-	558	514
Total		**1,363**	**282**	**597**	**400**	**106**	**2,748**	**2,683**

Table 2.1 Individual Directors' remuneration for year ended 31 December 2013

(1) Other benefits relate principally to car allowance, health insurance, death in service, and income protection benefits.

(2) In addition to the amounts above, an amount has been charged to the income statement in relation to the estimated cost of shares which could vest under the share option award granted to Mr. Mueller prior to his appointment as a director and in relation to the estimated cost of shares which could vest under the 2011, 2012 and 2013 LTIP awards. In respect of the share option award granted to Mr. Mueller prior to his appointment as a director and the 2011, 2012 and 2013 LTIP awards to Mr. Mueller, an amount of €483,600 has been charged in 2013.

(3) In addition to the amounts above, an amount has been charged to the income statement in relation to the estimated cost of shares which could vest under the 2011, 2012 and the 2013 LTIP awards to Mr. Macfarlane. In respect of the 2011, 2012 and 2013 LTIP awards to Mr. Macfarlane, an amount of €321,024 has been charged in 2013.

(4) Mr. Macfarlane voluntarily agreed to reduce his basic salary by approximately 23%. The figure set out in the table under 'Basic salary and fees' reflects the voluntarily reduced basic salary. Other elements of remuneration payable to Mr. Macfarlane are calculated by reference to his unreduced basic salary.

(5) Mr. Buckley retired as a director on 21 June 2012.

(6) Mr. Crowley received an additional fee of €4,800 in 2013 in respect of his Chairmanship of the Audit Committee to 29 August 2013.

(7) Mr. Hackett received additional fees of €122,000 in 2013 in respect of his assumption of additional responsibilities in chairing a legal committee to support management in relation to the Company's application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters.

(8) Ms. Shaw received an additional fee of €2,400 in 2013 in respect of her Chairmanship of the Audit Committee from 30 August 2013.

Table 2.2 Interest of Directors in office at 31 December 2013 in the shares of the Group

	31 December 2013 Number of shares	1 January 2013* Number of shares
Colm Barrington	300,000	200,000
David Begg	500	500
Montie Brewer	-	-
Laurence Crowley	-	-
Mella Frewen	-	-
Danuta Gray	23,863	23,863
Francis Hackett	9,544	9,544
Dr. Colin Hunt	5,000	5,000
Andrew Macfarlane (1)	246,492	35,000
Tom Moran	40,000	40,000
Christoph Mueller (2) (3)	613,625	505,000
Nicola Shaw	23,945	23,945
William Slattery	-	-

** Or date of appointment if later*

With the exception of the shares that shares vested on 24 February 2014 to Mr. Andrew Macfarlane and Mr. Christoph Mueller in respect of the 2011 LTIP, there was no change in the Directors' interests in the period between 31 December 2013 and 27 March 2014.

(1) In April 2011, Mr. Andrew Macfarlane was granted conditional awards of 500,000 shares under the LTIP in respect of the performance period 1 January 2011 to 31 December 2013. On 24 February 2014, 167,000 shares vested to Mr. Andrew Macfarlane in respect of the 2011 LTIP award following achievement of the performance targets. Of these, 87,058 shares were immediately sold for the purpose of discharging the tax liability which arose upon the vesting. Mr. Macfarlane's shareholding therefore increased by 79,942 shares on 24 February 2014. In April 2012 Mr. Andrew Macfarlane was granted conditional awards of 440,000 shares under the LTIP in respect of the performance period 1 January 2012 to 31 December 2014. In July 2013 Mr. Andrew Macfarlane was granted conditional awards of 280,000 shares under the LTIP in respect of the performance period 1 January 2013 to 31 December 2015. Any vesting of these shares is subject to the achievement of the performance targets outlined above.

(2) On 8 September 2009, Mr. Christoph Mueller was granted share options in respect of 1,500,000 shares. In September 2013, the Remuneration Committee determined that the performance criteria in respect of the second of 500,000 share options granted to Mr. Mueller had been achieved, as the closing market share price of €1.60 was achieved on at least 25 of the 40 days prior to 7 September 2013. The share options in respect of this tranche of 500,000 shares vested on 7 September 2013 and are exercisable at a price of €0.677 per share. Subject to achieving the conditions specified in the Share Option Deed, the exercise price of the third tranche of the share options is as follows: the exercise price in respect of the options over 500,000 shares which may become exercisable on or after the 7 September 2014 is 170% of €0.521 per share (being the average closing share price on the five days prior to the date of grant).

(3) In April 2011, Mr. Christoph Mueller was granted conditional awards of 600,000 shares under the LTIP in respect of the performance period 1 January 2011 to 31 December 2013. On 24 February 2014, 200,400 shares vested to Mr. Mueller in respect of the 2011 LTIP award following achievement of the performance targets. Of these, 104,470 shares were immediately sold for the purpose of discharging the tax liability which arose upon the vesting. Mr. Mueller's shareholding therefore increased by 95,930 shares on 24 February 2014. In April 2012 Mr. Mueller was granted conditional awards of 490,000 shares under the LTIP in respect of the performance period 1 January 2012 to 31 December 2014. In July 2013 Mr. Mueller was granted conditional awards of 465,000 shares under the LTIP in respect of the performance period 1 January 2013 to 31 December 2015. Any vesting of these shares is subject to the achievement of the performance targets outlined above.

Table 2.3 Share Options

As at 31 December 2013 and subject to achieving the closing market share prices (as set out in the third column) below, for at least 25 of the 40 days prior to the relevant dates noted below, there are outstanding options over 1,500,000 ordinary shares granted to Mr. Christoph Mueller composed as follows:

	No. of ordinary shares	Closing market share price and relevant date for option to become exercisable	Exercise price	Normal dates exercisable	Vesting Status
Mr. Christoph Mueller	500,000	€1.00 7 September 2012	€0.573 [1]	7 September 2012 until 7 September 2019	Vested but not exercised
	500,000	€1.60 7 September 2013	€0.677[2]	7 September 2013 until 7 September 2019	Vested but not exercised
	500,000	€2.20 7 September 2014	€0.886[3]	7 September 2014 until 7 September 2019	Pending (subject to achievement of performance criteria)

[1] 110% of €0.521 per share

[2] 130% of €0.521 per share

[3] 170% of €0.521 per share

Table 2.4 LTIP Awards [1]

	LTIP Award	Year	Performance Period	Vesting Status
Mr. Christoph Mueller	600,000	2011	1 January 2011 - 31 December 2013	Vested in the amount of 200,400 shares being 33.4% of award based on superior performance. Of these, 104,470 shares were immediately sold for the purpose of discharging the tax liability which arose upon the vesting
	490,000	2012	1 January 2012 - 31 December 2014	Pending (subject to achievement of performance criteria)
	465,000	2013	1 January 2013 - 31 December 2015	Pending (subject to achievement of performance criteria)
Mr. Andrew Macfarlane	500,000	2011	1 January 2011 - 31 December 2013	Vested in the amount of 167,000 shares being 33.4% of award based on superior performance. Of these, 87,058 shares were immediately sold for the purpose of discharging the tax liability which arose upon the vesting
	440,000	2012	1 January 2012 - 31 December 2014	Pending (subject to achievement of performance criteria)
	280,000	2013	1 January 2013 - 31 December 2015	Pending (subject to achievement of performance criteria)

[1] Any vesting of these shares is subject to the achievement of the performance targets outlined above.

Letter from the Chairman of the Audit Committee

Dear fellow shareholders,

Introduction
2013 was another busy year for the Audit Committee. It convened 11 times during the year to carry out its mandate of scrutinising the financial reporting process within the Company, monitoring the integrity of this process and monitoring the effectiveness of the Company's internal controls, internal audit and risk management systems. In addition, the Committee closely monitored the external statutory audit of the annual and consolidated accounts, while also keeping under review the independence of the Company's external audit firm. The Committee reviewed and approved all externally reported financial information.

In carrying out this mandate, the Audit Committee undertook significant engagement with management of the Company, the providers of the internal audit function (i.e. Ernst & Young – "EY") and the external audit firm (i.e. PricewaterhouseCoopers – "PwC"). In doing so, the Audit Committee has reviewed, and challenged where it judged necessary, the material information presented to it and, in monitoring the financial reporting process, has considered, in particular, the consistency and appropriateness of accounting policies, the methodology used to account for significant transactions, the basis of material estimates and judgements, and the clarity of disclosures made.

Composition
Mr. Laurence Crowley, Ms. Danuta Gray, Mr. Tom Moran and I were committee members throughout the year. Mr. Montie Brewer, a member of the Risk Committee, was appointed as a member of the Audit Committee in August 2013. The Committee was chaired by Mr. Laurence Crowley until August 2013, when I succeeded him.

Each member of the Audit Committee in 2013 was an independent non-executive director of the Company. Ms. Gray and Mr. Moran each retired as directors of the Company on 31 December 2013. Mr. Nicolás Villén was appointed as a member of the Audit Committee in January 2014.

Mr. Crowley, a Chartered Accountant, and Mr. Villen, an experienced former CFO and CEO, are the Audit Committee's financial experts. In addition, all other members of the Audit Committee have recent and relevant financial experience.

Assessment of risk
To assist the Audit Committee in monitoring and keeping under review the effectiveness of the Company's systems of risk management and internal control, the Board has constituted a Risk Committee with particular responsibility in this regard, including oversight of the Company's Risk Register. Minutes of meetings of the Risk Committee during 2013 were tabled at subsequent meetings of the Audit Committee and the members of each of the Audit Committee and the Risk Committee also met to undertake a joint annual review of the Risk Register and system of internal control. The ongoing assessment of risk was a key driver in informing the work and actions of the Audit Committee during 2013.

Principal activities
During the course of the year, the principal business of the Audit Committee has included consideration of the following items:

- first quarter interim management statement;
- half year results;
- forecast supporting the Company's trading update in September 2013;
- third quarter interim management statement;
- full year preliminary results and annual report;
- material accounting judgements affecting the financial statements based on reports from both management and the external auditors;
- internal audit and plans;
- external audit and plans;
- risk and internal control plans and reports, including:
  - internal audit reports;
  - tracking the implementation of internal audit recommendations;
  - reviewing the system of internal control;
  - good faith reporting; and
  - risk assessment;
- accounting policies, including in relation to segmental reporting and exceptional items;
- taxation, taxation risk and compliance;
- dividend policy and recommendation;
- internal audit effectiveness and independence; and
- external audit effectiveness, independence, rotation and re-appointment.

Internal audit
The Company's internal audit function is provided by EY under a service agreement. The effectiveness and independence of the function was monitored and kept under review by the Audit Committee through regular meetings with EY during the course of 2013. EY was appointed for a three year period. Its current contract expires at the end of 2014, but is extendable at the option of Aer Lingus for one further year if EY consents. The annual internal audit plan is developed each year in response to risks in the business and in consultation between management, the internal auditors and the Audit Committee. In developing the plan, enough flexibility is built in to allow the internal audit function to respond to either changes in the risk profile or issues that arise during the course of the year.

The internal audit plan approved for 2013 was kept under review by the Audit Committee throughout the year and the main findings of each resulting internal audit report were then reported to the Audit Committee. The Audit Committee monitored management action to implement findings and recommendations of the internal auditors through the maintenance of a log, which was updated on a rolling basis and kept under review at meetings of the Audit Committee. In addition to attendance at meetings of the Audit Committee, EY also had the opportunity during the year to meet privately with the members of the Audit Committee in the absence of management.

External audit
The Audit Committee received audit plans and reports from the Company's external auditors, PwC, throughout the year. In addition, the members of the Audit Committee met privately with PwC in the absence of management to discuss the work of PwC and any issues arising from the audit process.

The effectiveness of the audit process itself was kept under review by the Audit Committee through its engagement with PwC. The Audit Committee has now adopted a formal framework for its review of the effectiveness of the external audit process and audit quality which includes assessments in the following areas:

- the lead audit engagement partner;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- the execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit Committee;
- how the auditor supports the work of the Audit Committee;
- how the audit contributes insights and adds value;
- a review of the audit firm's independence and objectivity; and
- the quality of the formal audit report to shareholders.

An auditor assessment tool will now be completed each year by each member of the Audit Committee and by the CFO. This tool has been used to assess the audit of the 2013 financial statements. Feedback is also sought from the CEO, and senior members of the finance team. The feedback from this process is considered by the Audit Committee and is provided both to the auditors and to management. If necessary, action plans arising are also reviewed by the Audit Committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of independent audit and the booking of any audit adjustments arising and the timely provision of draft financial statements for review by the auditors and the Audit Committee.

Every two years, the Audit Committee will request that a partner independent of the audit engagement team discusses the quality of the external audit process with the Audit Committee chairman and the CFO using this evaluation framework. The first such discussion is planned to take place in early 2015 relating to the audit of the 2014 financial statements.

Following its review of the external audit, the Audit Committee has concluded that the audit appeared effective, and that the Company receives good and proactive service from PwC. The Audit Committee therefore recommended to the Board that PwC should be proposed for re-appointment as auditors of the Company at the Company's Annual General Meeting.

PwC has served as Company's external audit firm since 1996 and the audit was last put out to tender in 2003. The provisions of the UK Financial Reporting Council Guidance on Audit Committees mean that the external audit will, in due course, have to be put out to tender at least every 10 years. However, the transitional arrangements require that, in our case, the first such tender must happen in or before 2020. Separately, the EU is considering the implementation of regulations that will require mandatory auditor rotation but it appears that these proposed rules are unlikely to affect us before the middle of the next decade. The current lead partner will rotate off the Aer Lingus audit following the completion of the 2015 year end reporting. Subject to continued satisfactory performance, the Audit Committee intends to conduct a tender during his successor's term of office.

The Audit Committee permits the external auditors to perform a certain amount of non-audit work where they are best placed to provide those services and they are not of a scale or nature that would pose a threat to independence. It is the policy of Aer Lingus to restrict aggregate fees for non-audit activities of the auditors in any given year to €200,000, unless the Audit Committee is satisfied that there are good reasons for exceeding this amount and that there is no alternative service provider who could discharge the required service. In addition, it is the policy of Aer Lingus that the chairman of the Audit Committee is consulted in advance if it is proposed to engage the auditors on any individual piece of non-audit work where the fee is likely to exceed €50,000.

In 2013, fees were paid to PwC as follows:

	2013 €	2012 €
Statutory audit	340,000	432,000
Review of interim results, quarterly IMS and agreed upon procedures	58,500	58,500
Audit and audit related	**398,500**	**490,500**
Tax advice	192,861	143,000
Review of profit forecast	220,000	260,000
Total	**811,361**	**893,500**

Tax advice relates primarily to assistance with certain aspects of overseas VAT compliance, Irish corporation tax, and advice on taxation implications were the labour court pension recommendations to be implemented. The profit forecast review in 2012 related to bid defence circulars. In 2013 it was in connection with a potential circular to shareholders related to the IASS pension scheme. In the event, this circular was not issued.

Financial reporting and significant financial issues
The revised UK Corporate Governance Code requires that detail of the significant issues considered by the Audit Committee in relation to the financial statements and how those issues have been addressed be set out in this report. During 2013, the Audit Committee considered whether suitable accounting policies have been adopted, whether management had made appropriate judgements and estimates and whether disclosures were balanced and fair. The most significant issues dealt with by the Audit Committee in that regard during 2013 are set out below.

- ***Presentation of pension arrangements in the financial statements***
  The Audit Committee, in conjunction with the Board, received reports throughout the financial year on ongoing efforts by management and other relevant parties to address the funding issues in the IASS. In particular, the Committee and Board reviewed progress on pension matters generally in a specially convened Board meeting in early 2013. The Audit Committee, in conjunction with Board, also studied the final recommendation issued by the Labour Court on funding matters facing the IASS in May 2013 (including a recommended once-off Aer Lingus contribution totalling €140 million).

  The Audit Committee considered management's position that it was appropriate to continue to account for the IASS and the Pilots' Scheme as defined contribution schemes in both the entity accounts of Aer Lingus Limited and in the Group's consolidated accounts on the basis that the rate of employer contribution to both these schemes is fixed and cannot be varied without Aer Lingus' consent. After consideration of relevant matters, the Audit Committee agreed with management's position that both these schemes should continue to be presented as defined contribution schemes.

  The Audit Committee also considered and agreed with management's position that it is not appropriate to recognise a provision in Aer Lingus' 2013 financial statements for the proposed contribution of €140 million on the grounds that, in the absence of definitive agreements with trustees and unions and because shareholder approval has not been sought or obtained, there was no obligation on Aer Lingus to make this payment as at 31 December 2013. However, the Audit Committee agreed that disclosure of the details of the proposed contribution was required.

- ***Impairment of long lived assets***
  IAS 36, "*Impairment of Assets*", requires that an impairment assessment of long-lived assets should be prepared when specific "triggering events or conditions" are identified. One of the conditions identified is a situation in which the carrying value of the entity's net assets exceeds its market capitalisation. As of 31 December 2013, the Group's net assets were €852.8 million compared to a market capitalisation of €684.6 million. As a result management prepared an analysis of its long-lived assets (principally aircraft) to ascertain whether their carrying value was impaired.

  The Audit Committee considered a review of the impairment analysis prepared by management on the carrying value of these long-lived assets, the reasonableness of the underlying trading assumptions, the impact of the application of trading sensitivities and the discount rates used by management in the preparation of their impairment model. After considering these matters, the Audit Committee was satisfied with the conclusion of the management analysis that there was no evidence of an impairment of long-lived assets as at 31 December 2013.

- ***Exceptional items***
  Aer Lingus' reporting policy is to highlight within the income statement as 'exceptional items' those items of income and expense which are material non-recurring items that derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, are separately disclosed by virtue of their size or incidence. Such items may include business repositioning costs, takeover defence costs, profit or loss on disposal of significant items of property, plant and equipment, litigation costs and settlements, profit or loss on disposal of investments and impairment of assets, or once off costs or credits where separate identification is important to gain an understanding of the financial statements.

  Judgement is used by the Group in assessing the particular items which should be disclosed in the income statement and related notes as exceptional items.

  In 2013, the Audit Committee considered management's position that certain items warranted this presentation in order to help users of the financial statements in their understanding of the results for the period. In particular, the Committee considered management's classification of restructuring and termination costs, certain professional and legal fees and asset disposals as exceptional items for the purposes of IAS 1 in respect of the financial year ended 31 December 2013. After considering the quantum and nature of the items in question, and consistency with the principles used in prior years to classify items as exceptional, the Committee was satisfied with the treatment of these items as exceptional items in Aer Lingus' 2013 financial statements.

Risk of fraud in revenue recognition or management over-ride of controls
The Audit Committee noted that, in the conduct of their audit work, the external auditors are required by auditing standards to focus on the risk of fraud in revenue recognition and the risk of management override of internal controls. However, the Audit Committee is satisfied that there are adequate controls to mitigate the risk of material misstatement in the financial statements due to fraud in revenue recognition and that there was no evidence of management over-ride of controls in 2013. On this basis, these two matters were not considered significant issues by the Audit Committee with regard to financial reporting.

The FRC's guidance to audit committees also requires that the Audit Committee's report include those matters that have informed its conclusion, and the Board's determination that it is appropriate to adopt the going concern basis of preparation for the 2013 financial statements. In making this determination, the Audit Committee and Board had regard to the Group's five year plan (which includes an assessment of likely capital expenditure on aircraft over the period), the budget for 2014 (which has been approved by the Board), the level and terms of the Group's gross cash balance available to the Group (totalling €897.4 million at 31 December 2013). The Audit Committee and Board also included in their considerations the possible disbursement of €140 million in relation to the continuing efforts to deal with the deficit in the IASS pension scheme.

Link to remuneration

The Audit Committee considers the response of the executive directors and senior management of the Company in respect of issues falling within the terms of reference of the Audit Committee as material to remuneration levels generally and to the award of performance related pay in particular. To that end the Audit Committee has established with the Remuneration Committee a protocol whereby, on an annual basis, the Audit Committee will notify the Remuneration Committee of any issues it considers material to the work of the Remuneration Committee in determining the remuneration of the executive directors and senior management of the Company.

In so notifying the Remuneration Committee, the Audit Committee considers which, if any, matters should be advised to the Remuneration Committee in the context of both (i) matters arising in a given financial year that should be considered in the context of aggregate remuneration levels for that year and (ii) matters arising in a given financial year that should be considered in the context of longer term performance reviews or incentives.

Yours faithfully,

NICOLA SHAW
Chairman
Audit Committee

27 March 2014

Independent Auditors' Report to the Members of Aer Lingus Group plc

Report on the financial statements

Our opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, of the state of the Group's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the Company's affairs as at 31 December 2013 and of its cash flows for the year then ended; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Aer Lingus Group plc, comprise:

- the Consolidated and Company statements of financial position as at 31 December 2013;
- the Consolidated income statement and statement of comprehensive income for the year then ended;
- the Consolidated and Company statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises Irish law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be €4 million.

In arriving at this judgement we have had regard to the Pre-exceptional earnings before Interest, Taxation, Depreciation and Amortisation and Aircraft operating lease rental (EBITDAR). EBITDAR is a widely used measure to compare performance of airlines that have differing fleet ownership models. Based on our professional judgement we consider EBITDAR to be the appropriate benchmark as it is the most appropriate measure of the recurring performance of the Group. Materiality represents approximately 2% of EBITDAR.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €200,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is operated and managed as a single operating unit that provides air transportation for passengers and cargo and the Group's flight equipment is deployed through a single route scheduling system. The Group financial statements are a consolidation of the principal operating company, Aer Lingus Limited, and a number of wholly owned subsidiary companies mainly incorporated in Ireland. An audit of the complete financial information was conducted on all the companies within the Group.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 73.

Area of focus	***How the scope of our audit addressed the area of focus***
Pension arrangements – Irish Airlines (General Employees) Superannuation Scheme "IASS" and the Irish Airlines (Pilots) Superannuation Scheme "IALP". As explained in Note 25 there are significant deficits on the IASS and IALP pension schemes. We focused on this because, while the Group's position is, supported by legal advice, that they have no legal or constructive obligation in respect of the deficit in either scheme, the Group has indicated that it is willing to assist in a process that will seek a solution that balances the interests of all parties, and such process may involve once off payments to a new scheme provided certain conditions are met. Industrial or other actions may arise.	We obtained an understanding of key developments for the current year and since the year end and considered the potential impact from a financial statements perspective, including disclosures. In particular we focused on whether there had been any change in circumstances during the year or since year end which might require an obligation to be recognised. We read the Final Recommendation of the Labour Court in respect of the IASS issued on 24 May 2013 and assessed the complex steps and approvals on which implementation would be dependent. We read relevant background papers and obtained an understanding from the Audit Committee of the Group's oversight framework and position in relation to this matter and its potential impact on the financial statements. We considered the disclosures included in the financial statements.
Property, Plant and Equipment Impairment assessment The directors performed an impairment assessment as they identified an impairment trigger indicated by IAS 36 in that the carrying amount of the Group's net assets was more than its market capitalization as at 31 December 2013 (Refer to note 14 to the financial statements). We focused on this area due to the identified impairment trigger, the size of this balance and because it involves complex and subjective judgements by the directors about the future results of the business, in particular revenue and costs, fleet composition and discount rate assumptions.	We compared the directors' future cash flow forecasts to the latest Board approved budgets and tested the calculations therein. We challenged the directors' key assumptions which include passenger numbers and yield, price and certain costs such as fuel and airport charges by reference to historical experience and other observable data where appropriate. We compared long term growth rates to economic forecasts. We challenged the discount rate applied by assessing the Group's cost of capital with comparable organisations. We also performed sensitivity analysis on key trading assumptions and on the discount rate. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, we considered the likelihood of such change in those key assumptions arising.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the timing of the recognition of revenue and its presentation in the income statement as the timing of recognition is usually dependent on delivery of the service which, for the most part, occurs after payment has been received for the service.	We evaluated the IT systems and internal control over the recording of revenue and tested the controls between the booking, cash and revenue systems. We tested the timing of revenue recognition by reference to ticket class and service delivery. We considered journal entries posted to revenue accounts to identify and test unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal auditors. We discussed the risk of management override in internal controls with the Audit Committee and obtained their perspectives on the Group's monitoring process over internal control. We observed the Audit Committee's oversight by attendance at regular Audit Committee meetings. We tested key reconciliations and journal entries. We considered whether there was evidence of bias by the directors in the significant accounting estimates and judgements relevant to the financial statements by challenging their assumptions against other observable data where appropriate.

Going Concern

Under the Listing Rules of the Irish Stock Exchange we are required to review the directors' statement, set out on page 58, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Company.
- The Company statement of financial position is in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the Company, as stated in the Company statement of financial position, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Matters on which we are required to report by exception

Directors' remuneration and transactions

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosure of directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have nothing to report arising from these responsibilities.

Corporate Governance Statement

Under the Listing Rules of the Irish Stock Exchange we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code (''the Code'') and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

On page 50 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 73 of the Annual Report, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 50, the directors are responsible for the preparation of the Group and Company financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Craig
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
27 March 2014

Consolidated income statement

Year ended 31 December

	Note	2013 €'000	2012 as restated €'000
Revenue	6	**1,425,115**	1,393,284
Operating expenses (before net exceptional items)			
Staff costs	11	**277,353**	266,764
Depreciation and amortisation	14	**82,927**	76,079
Aircraft operating lease costs		**45,182**	46,137
Fuel and oil costs		**357,338**	358,560
Maintenance expenses		**68,419**	60,096
Airport charges		**298,678**	295,336
En-route charges		**60,689**	61,391
Distribution charges		**46,978**	46,957
Ground operations, catering and other operating costs		**126,995**	126,240
Other gains - net	7	**(588)**	(13,330)
		1,363,971	1,324,230
Operating profit before net exceptional items	8	**61,144**	69,054
Net exceptional items	9	**(17,354)**	(26,466)
Operating profit after net exceptional items		**43,790**	42,588
Finance income	10	**10,837**	14,661
Finance expense	10	**(15,075)**	(16,664)
		(4,238)	(2,003)
Share of profit/(loss) of Joint Venture	16	**6**	(190)
Profit before tax		**39,558**	40,395
Income tax charge	12	**(5,470)**	(6,543)
Profit for the year		**34,088**	33,852
Profit attributable to:			
- owners of the parent		**34,088**	33,852
Profit per share for profit attributable to the owners of the parent (expressed in cent per share)			
- basic and diluted	13	**6.4**	6.4

The notes on pages 87 to 137 form an integral part of these financial statements.

ANDREW MACFARLANE
Director

CHRISTOPH MUELLER
Director

Approved by the Board of Directors on 27 March 2014

Consolidated statement of comprehensive income

Year ended 31 December

	Note	2013 €'000	2012 as restated €'000
Profit for the year		**34,088**	33,852
Other comprehensive income/(loss)			
Items which may be reclassified to the income statement			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve	10	**(161)**	(147)
- Deferred tax on amortisation of available-for-sale reserve		**20**	18
Cash flow hedges			
- Fair value losses		**(8,366)**	(5,836)
- Deferred tax on fair value losses		**1,046**	729
- Transfer to fuel costs		**255**	(2,462)
- Deferred tax on transfer to fuel costs		**(32)**	308
- Transfer to other gains - net		**4,667**	(12,973)
- Deferred tax on transfer to other gains - net		**(583)**	1,622
Total of items which may be reclassified to the income statement		**(3,154)**	(18,741)
Items which will not be reclassified to the income statement			
Gain/(loss(on remeasurements of post employment benefit obligations – net of deferred tax impact:			
Effect of changes in demographic assumptions		**1,301**	(74)
Effect of changes in financial assumptions		**2,777**	(5,702)
Effect of experience adjustments		**3,273**	1,708
Total of items which will not be reclassified to the income statement		**7,351**	(4,068)
Total comprehensive profit for the year		**38,285**	11,043
Total comprehensive profit attributable to:			
- owners of the parent		**38,285**	11,043

The notes on pages 87 to 137 form an integral part of these financial statements.

ANDREW MACFARLANE
Director

CHRISTOPH MUELLER
Director

Approved by the Board of Directors on 27 March 2014

Consolidated statement of financial position

As at 31 December (except as otherwise stated)		**2013**	2012 as restated	1/1/12 as restated
		€'000	€'000	€'000
ASSETS	Note			
Non-current assets				
Property, plant and equipment	14	**689,447**	741,087	770,944
Intangible assets	15	**14,444**	12,447	12,643
Investment in Joint Ventures	16	**13,933**	10,764	-
Loans and receivables	18	**11,742**	43,373	42,180
Derivative financial instruments	19	**1,268**	1,007	2,084
Trade and other receivables	21	**43,278**	33,133	36,714
Deferred tax asset	29	**-**	1,330	4,929
Deposits	22	**101,752**	119,716	128,516
		875,864	962,857	998,010
Non-current assets held for sale		**-**	-	9,792
Current assets				
Inventories	20	**2,536**	2,235	1,493
Loans and receivables	18	**31,887**	-	-
Derivative financial instruments	19	**10,125**	4,539	34,845
Trade and other receivables	21	**73,526**	66,654	59,285
Current income tax receivables		**-**	3	16
Deposits	22	**563,229**	432,504	459,561
Cash and cash equivalents	22	**188,805**	312,939	264,495
		870,108	818,874	819,695
Total assets		**1,745,972**	1,781,731	1,827,497
EQUITY				
Called-up share capital	30	**26,702**	26,702	26,702
Share premium	31	**359,449**	510,605	510,605
Capital conversion reserve fund	31	**-**	5,048	5,048
Capital redemption reserve fund	31	**-**	343,796	343,796
Other reserves	31	**7,126**	7,583	23,359
Retained earnings		**459,490**	(59,023)	(72,789)
Total equity		**852,767**	834,711	836,721
LIABILITIES				
Non-current liabilities				
Finance lease obligations	24	**363,277**	489,608	536,971
Derivative financial instruments	19	**215**	846	733
Post employment benefit obligations	26	**28,254**	34,858	28,982
Provisions for other liabilities and charges	27	**57,627**	55,138	47,826
Deferred tax liability	29	**3,864**	-	-
		453,237	580,450	614,512
Current liabilities				
Trade and other payables	23	**292,268**	283,639	293,453
Finance lease obligations	24	**114,321**	41,979	40,266
Derivative financial instruments	19	**14,274**	11,220	8,867
Provisions for other liabilities and charges	27	**19,105**	29,732	33,678
		439,968	366,570	376,264
Total liabilities		**893,205**	947,020	990,776
Total equity and liabilities		**1,745,972**	1,781,731	1,827,497

The notes on pages 87 to 137 form an integral part of these financial statements.

ANDREW MACFARLANE
Director

CHRISTOPH MUELLER
Director

Approved by the Board of Directors on 27 March 2014

Company statement of financial position

As at 31 December (except as otherwise stated)

	Note	**2013**	2012	01/01/2012
			as restated	as restated
		€'000	€'000	€'000
ASSETS				
Non-current assets				
Investment in subsidiary undertakings	36	**250,330**	246,273	163,308
Current assets				
Trade and other receivables	21	**666,738**	603,882	699,911
Cash and cash equivalents	22	**8**	84,203	83,986
		666,746	688,085	783,897
Total assets		**917,076**	934,358	947,205
EQUITY				
Called-up share capital	30	**26,702**	26,702	26,702
Share premium	31	**359,449**	510,605	510,605
Capital conversion reserve fund	31	**-**	5,048	5,048
Capital redemption reserve fund	31	**-**	343,796	343,796
Share based payment reserve	31	**6,315**	5,865	2,900
Retained earnings		**524,610**	42,342	58,154
Total equity		**917,076**	934,358	947,205

In accordance with section 148(8) of the Companies Act, 1963 and section 7 (1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's result for the financial year is a profit of €27,000 (2012: profit of €206,000).

The notes on pages 87 to 137 form an integral part of these financial statements.

ANDREW MACFARLANE
Director

CHRISTOPH MUELLER
Director

Approved by the Board of Directors on 27 March 2014

Consolidated statement of changes in equity

All movements are attributable to the owners of the parent.

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

The notes on 87 to 137 form an integral part of these financial statements.

Company statement of changes in equity

	Called up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Share based payment reserve	Retained earnings	Total equity
					As restated	As restated	As restated
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2011 (as restated)	**26,702**	**510,605**	**5,048**	**343,796**	**812**	**57,351**	**944,314**
Profit for the year ended 31 December 2011, being total comprehensive income for the year	-	-	-	-	-	92	92
Exercise of share awards	-	-	-	-	(711)	711	-
Share based payment reserve	-	-	-	-	2,799	-	2,799
Dividend Paid (3c per share)	-	-	-	-	-	-	-
Balance at 31 December 2011	26,702	510,605	5,048	343,796	2,900	58,154	947,205
Balance at 1 January 2012 (as restated)	**26,702**	**510,605**	**5,048**	**343,796**	**2,900**	**58,154**	**947,205**
Profit for the year ended 31 December 2012, being total comprehensive income for the year	-	-	-	-	-	206	206
Share based payment reserve	-	-	-	-	2,965	-	2,965
Dividend Paid (3c per share)	-	-	-	-	-	(16,018)	(16,018)
Balance at 31 December 2012	26,702	510,605	5,048	343,796	5,865	42,342	934,358
Balance at 1 January 2013	**26,702**	**510,605**	**5,048**	**343,796**	**5,865**	**42,342**	**934,358**
Profit for the year ended 31 December 2013, being total comprehensive income for the year	-	-	-	-	-	27	27
Exercise of share awards	-	-	-	-	(3,607)	3,607	-
Share based payment reserve	-	-	-	-	4,057	-	4,057
Dividend Paid (4c per share)	-	-	-	-	-	(21,366)	(21,366)
Capital reduction (see Note 31)		(151,156)	(5,048)	(343,796)	-	500,000	-
Balance at 31 December 2013	**26,702**	**359,449**	**0**	**0**	**6,315**	**524,610**	**917,076**

The notes on pages 87 to 137 form an integral part of these financial statements.

Consolidated statement of cash flows

Year ended 31 December	Note	2013	2012
		€'000	€'000
Cash flows from operating activities	33	**101,088**	118,508
Income tax paid		**(19)**	(37)
Net cash generated from operations		**101,069**	118,471
Cash flows from investing activities			
Purchases of non-current assets (net of lease finance raised)		**(33,902)**	(41,132)
Investment in Joint Venture		**(10,715)**	(2,514)
Proceeds from sales of property, plant and equipment		**2,535**	50
(Increase)/decrease in deposits		**(98,066)**	39,089
Interest received		**3,652**	7,471
Net cash (used in)/generated from investing activities		**(136,496)**	2,964
Cash flows from financing activities			
Repayments of finance lease obligations		**(47,043)**	(45,196)
Interest paid		**(8,116)**	(9,692)
Dividends paid		**(21,286)**	(16,018)
Net cash used in financing activities		**(76,445)**	(70,906)
Net (decrease)/increase in cash and cash equivalents		**(111,872)**	50,529
Cash and cash equivalents at 1 January		**312,939**	264,495
Exchange losses on cash and cash equivalents		**(12,262)**	(2,085)
Cash and cash equivalents at 31 December	22	**188,805**	312,939

The notes on pages 87 to 137 form an integral part of these financial statements

Company statement of cash flows

Year ended 31 December

	Note	2013	2012
		€'000	€'000
Cash flows from operating activities	33	**(4)**	(1)
Net cash used in operations		**(4)**	(1)
Cash flows from investing activities			
Interest received		**31**	218
(Increase in)/repayment of amounts owed from subsidiary undertaking		**(62,856)**	16,018
Dividends paid		**(21,366)**	(16,018)
Net cash (used in)/generated from investing activities		**(84,191)**	218
Net (decrease)/increase in cash and cash equivalents		**(84,195)**	217
Cash and cash equivalents at 1 January		**84,203**	83,986
Cash and cash equivalents at 31 December	22	**8**	84,203

The notes on pages 87 to 137 form an integral part of these financial statements.

1 General information

Aer Lingus Group plc ("the Company") and its subsidiaries (together "the Group") operates as an Irish airline primarily providing passenger and cargo transportation services from Ireland to the UK and Europe ("short haul") and also to the US ("long haul"). The Company is a public limited liability company incorporated and domiciled in Ireland. The address of its registered office is Dublin Airport, Co. Dublin, Ireland. The Company has its primary listing on the Irish Stock Exchange and a standard listing on the London Stock Exchange.

These financial statements were authorised for issue by the Board of Directors on 27 March 2014. The financial statements are for the Group for the financial years ended 31 December 2013 and 31 December 2012. The principal companies within the Group during the years ended 31 December 2013 and 31 December 2012 are disclosed in Note 17.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Aer Lingus Group plc, which are presented in euro and rounded to the nearest thousand (€'000) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRS Interpretations Committee (IFRS IC) interpretations and the Companies Acts 1963 to 2013 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments. The going concern statement on page 58 forms part of the consolidated Financial Statements. The notes to the consolidated financial statements include the information in the Report of the Remuneration Committee on Directors' Remuneration that is described as forming part of the financial statements.

The preparation of financial statements 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 revenues and expenses during the reporting period. Although these estimates are based on management's best available knowledge of the amount, event or actions, actual results may ultimately differ from those estimated. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the Group's preparation of the annual consolidated financial statements for the year ended 31 December 2012, with the exception of the items noted below.

(i) Lessor accounting

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

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

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

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

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

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

The restatement has no effect on total comprehensive income, as the restated finance charge in the income statement is offset by a corresponding adjustment to remeasurements of post employment benefit arrangements in other comprehensive income. The restatement had no impact on the consolidated statement of financial position or on basic or diluted earnings per share. The effects of these changes on each of the impacted financial statement captions recognised in the 2012 financial statements are set out in the table below. The impact on periods prior to 2012 has not been disclosed as the directors deem it to be impractical.

Year ended 31 December 2012

	As previously reported €'000	Adjustments €'000	As restated €'000
Income statement			
Finance income			
Finance income on post employment benefit assets	642	(642)	-
Finance expense			
Interest expense on post employment benefit obligations	(1,538)	467	(1,071)
Profit before taxation	40,570	(175)	40,395
Other comprehensive income			
Loss on remeasurement of post employment benefit obligations	4,243	(175)	4,068
Statement of cashflows			
Profit before taxation	40,570	(175)	40,395
Finance income	(15,303)	642	(14,661)
Finance expense	17,131	(467)	16,664

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

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

During the year, the Group recognised an exceptional charge of €8.9 million in respect of a voluntary severance scheme which was announced in its Q1 Interim Management Statement, representing termination costs under IAS 19R in respect of those employees who had exited or had committed to exit the business by the year end under voluntary severance. This charge and the charge of €1.1 million in respect of severance under the Greenfield cost reduction programme is in respect of employees who had accepted the offer of voluntary severance at the reporting date. See Note 9 for further information.

(iii) Change in accounting policy – adoption of IFRS 13 Fair value measurement.
The Group has included the disclosures required under IFRS 13 Fair value measurement ("IFRS 13"). See Note 19 for details. IFRS 13R has not had a significant impact on the results or financial position of the Group.

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

(v) Reclassification between current and non-current assets
At 31 December 2013, lease premiums of €8,368,000 and aircraft deposits of €13,398,000 are presented as "other debtors" within non-current assets, as the amounts are not expected to be respectively released to the income statement or recovered within 12 months of the reporting date. For consistency, the equivalent amounts at 31 December 2012 have been restated within the statement of financial position, leading to a reclassification of €9,317,000 of lease premiums and €7,958,000 of aircraft deposits (total of €17,275,000) from current assets to non-current assets. The equivalent amounts at 31 December 2011 have been restated within the statement of financial position, leading to a reclassification of €10,230,000 of lease premiums and €9,804,000 of aircraft deposits (total of €20,034,000) from current assets to non-current assets. These restatements have no effect on the income statement, statement of comprehensive income, the statement of changes in equity, cashflow statement, or on basic or diluted earnings per share.

As at 31 December 2012

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

As at 1 January 2012

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Non-current assets			
Trade and other receivables	16,680	20,034	36,714
Current assets			
Trade and other receivables	79,319	(20,034)	59,285

(vi) Recording the share based payment reserve in Aer Lingus plc instead of Aer Lingus Limited

During 2013, the Group identified that awards of options in and shares of Aer Lingus Group plc granted to employees of its subsidiary Aer Lingus Limited for services to that entity had not been recorded within Aer Lingus Group plc. The impact of this omission was that the investment held by Aer Lingus Group plc in Aer Lingus Limited was understated by the cumulative fair value of share based payment awards and a reserve for share based payments omitted from the Aer Lingus Group plc company financial statements. There was no impact on the Income Statement, Statement of Comprehensive Income or Statement of Cashflows of Aer Lingus Group plc and no impact on the consolidated financial statements. This error has been corrected retrospectively in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". The effect of the correction is to record the Group's share based payment reserve in the company accounts of Aer Lingus Group plc. The impact of the error on the statement of financial position and statement of changes in equity of Aer Lingus Group plc as at 31 December 2012 and 1 January 2012 is shown below:

As at 31 December 2012

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Non current assets			
Financial assets	239,697	6,576	246,273[1]
Equity			
Share based payments reserve	0	5,865	5,865
Retained earnings	41,631	711	42,342

As at 1 January 2012

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Non current assets			
Financial assets	159,697	3,611	163,308[1]
Equity			
Share based payments reserve	0	2,900	2,900
Retained earnings	57,443	711	58,154

[1] See Note 36 which notes other movements in financial assets in 2012

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

The following new standards and amendments to existing standards and interpretations effective for annual periods beginning after 1 January 2013 have been adopted by the Group. There have been no significant changes to reported results, statement of financial position or disclosures as a result of applying the new standards, except as otherwise disclosed above.

Topic	Key requirements	Effective date
Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting	This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. See Note 3 for the additional disclosures in this respect.	1 January 2013

Annual improvements 2011	These annual improvements address six issues in the 2009-2011 reporting cycle. These includes changes to: . IFRS 1, 'First time adoption' . IAS 1, 'Financial statement presentation' . IAS 16, 'Property plant and equipment' . IAS 32, 'Financial instruments; Presentation' . IAS 34, 'Interim financial reporting'	1 January 2013

The following new standards, amendments to existing standards and interpretations effective for annual periods beginning on or after 1 January 2014 have been issued prior to the date of issuance of the Group's financial statements but have not been adopted early by the Group. No significant changes to reported results, statement of financial position or disclosures are currently anticipated as a result of applying the new standards in future periods, except for IFRS 9, for which the Directors have not yet assessed the potential impact on the financial statements.

Topic	Key requirements	Effective date
IFRS 10, 'Consolidated financial statements'	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more, other entity. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2014
IFRS 11, 'Joint arrangements'	IFRS 11 ensures a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. Under IFRS 11 there are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed under IFRS 11.	1 January 2014
IFRS 12, "Disclosure of interests in other entities"	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2014
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements which remain after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2014
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2014
Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
Amendment to IFRSs 10, 11 and 12 on transition guidance	These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.	1 January 2014
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting	This amendment is to the application guidance in IAS 32, and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014
Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives'	This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.	1 January 2014
IFRIC 21, 'Levies' (subject to EU endorsement)	This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.	1 January 2014

IFRS 9, 'Financial instruments' (subject to EU endorsement)	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.	1 January 2018

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisitions of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given as consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions and balances and unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial statements of all subsidiaries are drawn up to the year ended 31 December.

The accounting policies described in these financial statements apply to all of the Group's subsidiaries.

(b) Joint ventures

Joint ventures, which are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement, are accounted for using the equity method, from the date on which the contractual agreements stipulating joint control are finalised, and are derecognised when joint control ceases. The Group's single joint venture is a jointly controlled entity within the meaning of IAS 31.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post acquisition profits or losses of the entity (through the income statement) and movements in other comprehensive income.
When the Group's share of losses in a joint venture equals or exceeds its interests in the entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where the joint venture's reporting currency is other than the Group's reporting currency, the effect of retranslating the Group's interest in the closing balance sheet of the joint venture is charged or credited directly to equity, within the "retranslation reserve".

The Group's interest in the net assets of its joint venture is reported as 'Investment in joint venture' in the Consolidated Statement of Financial Position and its interest in its result is included in the Consolidated Income Statement, below operating profit.

See Note 16 for further details on the Group's investment in its Joint Venture.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, Christoph Mueller.

2.4 Foreign currency translation

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

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or at the reporting date 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 in "Other gains - net" except when deferred in equity as qualifying cashflow hedges.

Exchange rates prevailing at reporting date are set out below:

	USD	STG
31 December 2013	1.37	0.83
31 December 2012	1.32	0.82

Average exchange rates during the year were as follows:

	USD	STG
2013	1.33	0.85
2012	1.29	0.82

2.5 Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency taken out to fund the purchase of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and when the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives	Residual values[1]
Flight equipment		
Aircraft fleet and major spares [2]		
- short haul aircraft	18 years	10% of cost
- long haul aircraft	20 years	10% of cost
Rotable spares	5 – 11 years	Nil
Modifications to leased aircraft	Period of lease	Nil
Property		
Freehold	Principally 50 years	Nil
Leasehold	Period of lease	Nil
Equipment		
Ground equipment	3 – 20 years	Nil
Other equipment	2 – 10 years	Nil

[1]The residual values and useful lives of assets are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount written off.

[2]The costs of major airframe and engine maintenance checks on owned and finance leased aircraft are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft. On acquisition of new owned or finance leased aircraft, the expected cost of initial major airframe and engine maintenance checks is separately identified and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

2.6 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis. Costs that are directly associated with the production of identifiable software products controlled by the Group, and which are assessed as likely to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These capitalised costs are amortised over their estimated useful lives (not exceeding three years) on a straight line basis.

Other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

In 2011, as part of the surrender of the lease over its former head office building, the Group acquired a ten year license for the use of certain property owned by the Dublin Airport Authority. This license is held at cost and amortised over the ten year license term.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation 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. Non-financial assets that have been impaired are reviewed for possible reversal of the impairment at each reporting date. Refer to Note 14 for further detail.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) *Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets and liabilities in this category are classified as current if expected to be settled within 12 months; otherwise, they are classified as non-current.

2.8.2 Recognition and measurement

Purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Purchases are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. They are subsequently carried at fair value with changes in fair value taken to"Other gains – net". Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets through the income statement category are presented in the income statement within "Other gains – net" in the period in which they arise.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts which is not contingent on a future event and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously, which is enforceable, as well as in the normal course of business, in the event of default or of insolvency or bankruptcy of any of the counterparties. See Note 3.4 for the disclosures in this respect required by the amendment to IFRS 7 effective from 1 January 2013.

2.10 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it as lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; and
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade receivables is described in Note 2.14.

2.11 Emission Allowances.

Emission allowances received free of charge are recognised at nil cost on date of grant. Allowances purchased subsequently are recognised at cost. Purchased allowances continue to be carried at original cost, and are not revalued or amortised but are tested for impairment where indicators exist that the carrying value may not be recoverable. Liabilities in respect of emission obligations are measured as the best estimate of the further expenditure required to settle the present obligation at the reporting date.

2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- Hedges of a particular risk associated with a recognised assets or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 19. Movements on the hedging reserve in shareholders' equity are shown in Note 31. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability. The Group only applies fair value hedge accounting for hedging fixed interest risk on assets and borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate assets and borrowings is recognised in the income statement within "finance expenses". The gain or loss relating to the ineffective portion of the interest rate swaps is recognised in the income statement within "Other gains – net".

If a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

Cash flow hedges are principally used to hedge the commodity price risk associated with the Group's forecasted fuel purchases as well as certain foreign exchange and interest rate exposures. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "fuel and oil" costs in the case of fuel purchases and "Other (gains)/losses – net" in the case of foreign exchange derivatives.

Amounts accumulated in equity are reclassified to the statement of financial position or income statement in the periods when the hedged item affects the statement of financial position or income statement (for example, when the forecast sale that is hedged takes place). They are included under the relevant caption in the consolidated financial statements, i.e. fuel hedges in "fuel and oil costs" caption and foreign exchange hedges within the captions "Other (gains)/losses – net" or "property plant and equipment".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast cash flow arises. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable disposal costs.

2.14 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, where appropriate, less provision for impairment. Trade receivables are classified as current assets if they are expected to be recovered within 12 months or less. If not, they are classified as non-current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will reject charges and default or delinquencies in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within "ground operating, catering and other operating costs". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the same account in the income statement.

2.15 Cash and cash equivalents and deposits

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within current liabilities on the statement of financial position.

Deposits with original maturities of less than three months are classified as cash and cash equivalents. Deposits with an original maturity of more than 3 months are classified as current assets if maturing within 12 months and otherwise as non current assets.

2.16 Share capital

Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds received.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. The balance is classified within reserves, as treasury shares. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within 12 months or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax rates and laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.20 Employee benefits

Post employment benefit obligations
The Group companies operate various pension schemes. The schemes are generally funded through payments to trustee-administered funds. The Group contributes to both defined benefit and defined contribution plans.

For defined contribution schemes, the Group pays contributions into the pension schemes in accordance with the trust deed. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses (remeasurements) are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in other comprehensive income.

The discount rate applied by the Group in determining the present value of the schemes' liabilities is determined by reference to market yields at the reporting date, on high quality corporate bonds of a currency and term consistent with the currency and term of the associated post employment benefit obligation. Where a deep market for high quality corporate bonds of a term consistent with the post retirement obligations of a particular scheme does not exist, a rate which is extrapolated, (with assistance from actuarial experts), from available high quality corporate bonds of shorter maturities is used. The directors do not assess that the nature of a high quality corporate bond has changed significantly during the year.

Past service cost is recognised immediately as an expense at the earlier of the following dates (a) when a plan amendment or curtailment occurs; and (b) upon recognition of related restructuring costs or termination benefits.

The post employment benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates; (a) when the Group can no longer withdraw the offer of these benefits; and (b) when the Group recognises costs for a restructuring which is within the scope of IAS 37 and involves the payment of termination benefits.

2.21 Share-based payment

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Company (awarded under share awards and share options). The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share awards and options granted:

- Including any market performance conditions; and
- Excluding the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of share awards and options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the entity revises its estimates of the number of share awards and options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium where new shares are issued to satisfy awards or options. Where treasury shares (see Note 2.16) are used to satisfy the exercise of vested share-based compensation awards, the cost of the shares used to satisfy the awards is credited from treasury shares, with an offsetting entry to share based payment reserves.

The grant by the Company of awards and options over its equity instruments to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured at the grant date, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity.

2.22 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation, and;
- the amount is capable of reliable estimation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance expense.

Provisions are made for aircraft maintenance costs which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease impose obligations on the lessee to have these overhauls carried out. Provisions reflect the cost rates expected to apply at the time the work is carried out. Provisions for costs to meet the contractual end of lease return conditions are also included. The actual cash outflow of the overhauls is charged against the provision when incurred. Any residual balance is transferred to the income statement.

Routine maintenance is expensed as incurred.

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 and early retirement measures which have been communicated to employees. They represent the Directors' best estimate of the cost of these measures. Provision for termination benefits that are not part of a restructuring plan are recognised when the entity can no longer withdraw the offer of those benefits.

2.23 Frequent Flyer Programme

The Group maintains a loyalty points programme, the Gold Circle Club, which allows customers to accumulate points when they purchase flights. The points can be redeemed for free flights, products and services with Aer Lingus and its partners, subject to a minimum number of points being obtained. In accounting for this programme, consideration received is allocated between the flights sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis.

The fair value of the points issued is deferred and recognised as passenger revenue when the points are redeemed. Unclaimed loyalty points are recognised in the Income Statement on their expiration.

2.24 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Revenue comprises the fair value of consideration received or receivable for the sale of the Group's services in the ordinary course of the Group's activities, and can be divided into scheduled passenger, cargo, ancillary and other revenue. Scheduled passenger revenue is shown inclusive of passenger charges and other fees to the extent that these are recovered directly from customers at the point of sale, but exclusive of applicable government taxes including taxes levied by governments for travel to and from their respective countries and sales taxes such as VAT. The point of recognition differs according to the various revenue streams as set out below:

(a) *Revenues*

Amounts in respect of transportation of passengers and cargo (and related recoverable charges and fees) are deferred and are not recognised as revenue until the point at which the passenger or cargo has flown. The value of bookings made for which transportation has not been provided at the reporting date is included in "trade and other payables" under the caption of "ticket sales in advance". Expired tickets are recognised as revenue using estimates based on historical trends.

Ancillary revenues are recognised in the income statement in the period in which the associated services are provided. Fees charged for bags and seat selection are recognised when the passenger has flown. Fees charged for any changes to flight tickets are recognised as revenue immediately.

Other revenues are recognised in the income statement in the period in which the associated services are provided. Revenues arising from the Group's franchise agreement with Aer Arann are recognised on a net (as agent) basis with the agreed franchise fee reported within "Other revenue". Revenues arising from the Groups frequent flyer programme are also reported within ''Other revenue''.

(b) *Lessor accounting*

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

(c) *Interest income*

Interest income is accrued by reference to the principal outstanding using the effective interest rate applicable.

(d) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of aircraft where the Group takes on substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased aircraft and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in "finance lease obligations". Certain lease contracts contain interest rate swaps that are closely related to the underlying financing and as such, are not split out and accounted for as an embedded derivative.

2.26 Exceptional items

Exceptional items are material non-recurring items that derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, are separately disclosed by virtue of their size or incidence. Such items may include business repositioning costs, takeover defence costs, profit or loss on disposal of significant items of property, plant and equipment, litigation costs and settlements, profit or loss on disposal of investments and impairment of assets, or once off costs or credits where separate identification is important to gain an understanding of the financial statements. Judgement is used by the Group in assessing the particular items which should be disclosed in the income statement and related notes as exceptional items.

2.27 Dividend distribution

Dividends to the Company's shareholders are recognised as liabilities in the Company and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including exchange rate, commodity price and interest rate risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The main currency exposures result from a structural trading deficit in US dollars and a surplus in sterling. A large proportion of the Group treasury function's work in relation to foreign exchange rate risk relates to the management of the Group's cashflow exposures. Significant currency exposures are managed for the current and future financial years on a systematic, amortising basis within pre-set bands. The dollar deficit arises because the dollar costs for items such as fuel and aircraft rentals exceed dollar sales in the US. The sterling surplus arises because UK sales exceed sterling costs. Profits are reduced by a stronger dollar and/or a weaker sterling.

Additionally, significant currency exposure results from the capital commitments relating to the purchase of aircraft which are priced in US dollars. Acquisition costs are increased by a stronger dollar.

The Group treasury function manages both cashflow exposures and statement of financial position exposures arising from currency risk. The products used by the Group treasury function in managing currency risk are predominantly forward foreign exchange contracts.

Based on the trading deficit in US dollars for the year ended 31 December 2013, a 5% weakening of the EUR to USD exchange rate over the year-end rate would result in a reduction in profit of €8.3 million for the year (2012: €8.7 million). Based on the trading surplus in sterling for the year ended 31 December 2013, a 5% strengthening of the EUR to GBP exchange rate over the year end rate would result in a reduction in profit of €6.2 million for the year (2012: €6.0 million). The impact of such currency movements after taking account of hedging would have been negligible for both 2013 and 2012.

(ii) Interest rate risk

The Group is exposed to interest rate risk associated with its long term funding requirements and its programme of surplus funds investment. Higher interest rates increase the costs of gross debt and lower interest rates reduce the returns from cash investments.

Overall the Group is in a net cash position. Interest rate exposure on debt is managed by placing matching investments, which serve as natural hedges in relation to both interest rate and currency exposures on the debt. In addition to these investments, the Group holds further cash, predominantly in euro, and therefore the major interest rate exposure the Group has is to movements in the euro interest rate. This exposure is actively reviewed and managed. A 1% fall in interest rates based on net surplus cash throughout 2013 would reduce profits by €4.5 million (2012: €4.4 million).

(iii) Commodity price risk

Aviation jet fuel requirements expose the Group to the market volatility of jet fuel prices. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on profitability. The primary policy objective for the management of fuel price exposure in the Group is to reduce the volatility and increase the predictability of future fuel costs in a risk managed and cost effective manner.

The Group treasury function manages fuel price risk within a tightly controlled framework. The Group operates a systematic fuel hedging policy covering a rolling two year period. This hedging policy targets specific cover levels for each period on a rolling basis ranging from 90% cover for the following month to between zero and 5% cover 24 months out. This generates average cover levels of approximately 60% for the next 12 month period (rolling year 1) and 15% for the following 12 months (rolling year 2).Under the policy the Group can derogate from this systematic hedging requirement, in event of unusual market conditions.

The products used by the Group treasury function in managing commodity price risk are predominantly jet fuel swaps. A US $10 increase in the price per tonne of jet fuel in 2013 would have increased fuel costs by approximately $4.5 million, based on usage of 445,000 tonnes, absent hedging (2012: $4.4 million). In light of the Group's hedging strategy, the impact of a US$10 increase in jet fuel per tonne would have been negligible in both 2013 and 2012.

(iv) Carbon Allowances Price Risk

The Group is exposed to market volatility of the price of EU-ETS allowances in respect of the need to purchase the non-free element of annual allowances. The Group treasury function manages this risk by making purchase decisions based on market prices. The entire non-free allowance requirement for 2013 was purchased in advance of the year end.

On 21 January, 2014 the Transport Committee of the European Parliament voted in favour of extending a 2012 moratorium on the ETS scheme in respect of flights which were not entirely within the EU. Such extension is proposed until 2016 emissions and requires a further vote by the EU to pass into law. Aer Lingus is compliant with EU ETS derogated requirements for 2013.

(b) Credit risk

Credit risk arises from trade receivables due from customers, and from loans and receivables, derivative financial instruments, deposits and cash and cash equivalents with banks and financial institutions ("financial counterparties"). The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Group policy requires financial counterparties to hold minimum credit ratings from independent rating agencies. The appropriateness of Board approved credit limits are regularly monitored and reviewed in light of the commercial requirements of the Group.

At 31 December 2013 the Group had a total credit exposure of €0.9 billion (31 December 2012: €0.9 billion) relating to bonds, deposits, cash and derivatives which was spread over 40 (2012: 32) counterparties. Of this €0.8 billion (2012: €0.7 billion) was due to mature within 12 months. The Group does not have any material credit risk arising from the ageing of trade and other receivables (see Note 21).

32% (2012: 36%) of the total credit exposure was held with financial institutions holding long-term credit ratings equivalent to AAA to AA3 (Moody's). 61% (2012: 53%) of the total credit exposure was held with financial institutions holding long term-ratings equivalent to A1 to A2. The remaining 7% (2012: 11%) was held with financial institutions with long-term credit ratings below A2.

(c) Liquidity risk

The principal policy objectives in relation to liquidity are to ensure that the Group has access at minimum cost, to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. In implementing this policy, the Group is required to maintain, at all times, access to Board approved minimum liquidity requirements. In addition, this liquidity requirement, once drawn, must continue to be accessible for an agreed further period. Cash balances in excess of these levels are normally maintained in order to enable the Group to take advantage of commercial opportunities and withstand business shocks.

The Group has long-term debt associated with aircraft acquisitions. All borrowing is undertaken by the Group treasury function. Group policy is to maintain, at all times, cash and/or committed facilities for substantially all of the net forecasted debt repayments for the following 12 months.

At 31 December 2013 the Group had capital commitments of €797.7 million (2012: €939.8 million) of which €794.6 million (2012: €937.1 million) relates to aircraft and equipment. The Group currently expects to finance these commitments with a combination of finance and operating leases.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Trade and other payables exclude deferred income.

	Less than 1 year	**1 – 2 years**	**2 – 5 years**	**Over 5 years**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
At 31 December 2013					
Finance lease obligations	114,321	84,264	120,186	158,827	477,598
Trade and other payables	159,137	-	-	-	159,137
At 31 December 2012					
Finance lease obligations	63,789	127,273	188,797	246,162	626,021
Trade and other payables	154,170	-	-	-	154,170

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. There were no amounts with maturity dates in excess of two years.

	Less than 1 year	1 – 2 years	Total
	€'000	€'000	€'000
At 31 December 2013			
Forward foreign currency contracts			
Outflow	466,717	25,219	491,936
Inflow	453,336	24,920	478,256
Forward fuel price contracts			
Outflow	202,192	31,181	233,373
Inflow	211,547	32,429	243,976
At 31 December 2012			
Interest rate swap			
Outflow	595	-	595
Inflow	-	-	-
Forward foreign currency contracts			
Outflow	339,364	72,585	411,949
Inflow	333,936	72,748	406,684
Forward fuel price contracts			
Outflow	193,147	22,928	216,075
Inflow	192,269	23,522	215,791

3.2 Capital Risk Management

The Group's objectives when managing capital (comprising total equity and net debt) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which reduces the cost of capital as far as practical.

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

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

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

The Group's dividend policy, set out in May 2012, was to pay a dividend for those years in which the Group made a profit provided a dividend was prudent in the context of the Group's trading performance and prospects.

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

Given the delivery of an operating profit in each year since 2010; the attractive prospects for the business and the increase in the Group's distributable reserves, the Board announced on 24 February 2014, that, in respect of 2014 and for the foreseeable future, it expects to pay an annual dividend of four cent per share provided the dividend is appropriate in the context of the Group's financial position, strategic objectives and prospects. It is proposed that the dividend be paid as a final dividend.

3.3 Fair value estimation

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

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

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

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

3.4 Master netting arrangements

There are no financial assets and financial liabilities netted and offset against each other on the Statement of Financial Position at the reporting dates. However, certain financial assets and financial liabilities are subject to enforceable master netting arrangements which could create a potential right of offset within the scope of the amendment to IFRS 7 "Offsetting Financial Assets and Financial Liabilities". These arrangements are contained within ISDA (International Swaps and Derivatives Association) Master Agreements ("ISDA's") and relate to derivative financial instruments only.

Each party to the master netting arrangements has a right of offset between financial assets and financial liabilities where there is an early termination event such as a default or change of ownership of the counterparty. Such events of default include failure to perform obligations or to make prompt payment when due. The right of offset is only enforceable in those situations and as such does not meet the criteria for offset in the Statement of Financial Position, nor is there any intention by the Group or it's counterparties to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The carrying value of derivative financial instruments in the statement of financial position would potentially be reduced by approximately €4,664,000 (2012: €2,470,000) if all master netting arrangements were enforced (as reflected in the following tables):

Derivative Financial Assets

As at 31 December 2013				**Related Amounts Not Offset**		
	Gross Financial Assets	**Gross Financial Liabilities Offset**	**Net Amounts Presented**	**Financial Instruments**	**Cash Collateral Received**	**Net Amount**
	€000's	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**
Derivative Financial Assets	11,393	-	11,393	(4,664)	-	6,729

As at 31 December 2012

	Gross Financial Assets	Gross Financial Liabilities Offset	Net Amounts Presented	Related Amounts Not Offset: Financial Instruments	Related Amounts Not Offset: Cash Collateral Received	Net Amount
	€000's	€000's	€000's	€000's	€000's	€000's
Derivative Financial Assets	5,546	-	5,546	(2,470)	-	3,076

Derivative Financial Liabilities

As at 31 December 2013

	Gross Financial Liabilities	Gross Financial Assets Offset	Net Amounts Presented	Related Amounts Not Offset: Financial Instruments	Related Amounts Not Offset: Cash Collateral Pledged	Net Amount
	€000's	€000's	€000's	€000's	€000's	€000's
Derivative Financial Liabilities	14,489	-	14,489	(4,664)	-	9,825

As at 31 December 2012

	Gross Financial Liabilities	Gross Financial Assets Offset	Net Amounts Presented	Related Amounts Not Offset: Financial Instruments	Related Amounts Not Offset: Cash Collateral Pledged	Net Amount
	€000's	€000's	€000's	€000's	€000's	€000's
Derivative Financial Liabilities	12,066	-	12,066	(2,470)	-	9,596

4 Critical accounting estimates and judgements

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

(a) Provisions
The Group makes provisions for legal and constructive obligations which are outstanding at the reporting date. These provisions are made based on historical or other relevant information, adjusted for recent trends where appropriate. However, provisions represent estimates of the financial costs of events that may not occur for some years. Measurement uncertainty associated with aircraft maintenance provisions also arises from the timing and nature of overhaul activity required and sensitivity in projected flight hours. As a result of this and the level of uncertainty attaching to the final outcomes, the actual results may differ significantly from those estimated.

(b) Post employment benefits – Irish Airlines (General Employees) Superannuation Scheme and the Irish Airlines (Pilots') Superannuation Scheme (collectively the "Irish pension schemes")
As the provisions of the trust deeds governing the Irish Pension Schemes are such that no changes to the contribution rates are possible without the prior consent of Aer Lingus Limited, this company has concluded that it has no obligation, legal or constructive, to increase its contributions beyond those levels. As such, it has accounted for the Irish Pension Schemes as defined contribution schemes under the provisions of IAS 19 *Employee Benefits (Revised) ("*IAS 19R"), and, as a result, does not recognise any surplus or deficit in the schemes in the statement of financial position.

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

Refer to Note 25 for further detail.

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

As this assessment involves long term projects which may not be realised, this is an area of judgement for management. Refer to Note 14 for further detail.

(d) *Recoverability of deferred tax assets*
The Group recognises tax assets where there is a reasonable expectation that those assets will be recovered. The assessment of the recoverability of deferred tax assets involves significant judgement. The main deferred tax asset recognised by the Group relates to unused tax losses. The Directors assess the recoverability of tax losses by reference to future profitability and tax planning, including fleet management decisions. Refer to Note 29 for further detail.

(e) *Share based payments*
The determination of the fair value of awards under the long term incentive plan, and of the share options and awards granted to the CEO involve the use of judgement and estimates. Their fair values have been estimated using binomial lattice or Monte Carlo simulation models. Refer to Note 31 for further detail.

(f) *Fair value of derivatives and other financial instruments*
The fair value of financial instruments that are not traded in active markets (for example, "over the counter" derivatives) is determined by using valuation techniques. The Group exercises judgement in selecting valuation methods and makes assumptions that are mainly based on observable market data and conditions existing at each reporting date. The specific valuation techniques used to value financial instruments are set out in Note 3.3. Further judgement is exercised by management in considering the probability of occurrence of underlying hedge transactions, in particular the likelihood and timing of future fuel, US dollar and aircraft purchases.

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

5 Segment information

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

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

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

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. Interest income and expense are not included in the segmental results reviewed by the chief operating decision maker.

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

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

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

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

During the period additions totaling €34 million (2012: €44.4 million) were made to the reportable segments non-current assets.

6 Revenue

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

7 Other gains - net

	2013	2012
	€'000	€'000
Realised gains on forward foreign currency contracts	**(1,194)**	(11,888)
Net foreign exchange losses/(gains) on operating activities	**606**	(1,442)
	(588)	(13,330)

8 Operating profit before net exceptional items

The operating profit before net exceptional items is stated after charging:

	2013 €'000	2012 €'000
Depreciation on property, plant and equipment (Note 14)		
- Owned	**31,753**	28,837
- held under finance leases	**47,678**	47,797
Amortisation of intangible assets (Note 15)	**3,496**	2,819
Operating lease rentals payable		
- plant and machinery	**-**	67
- aircraft	**45,182**	46,137
- property	**6,926**	9,133

Auditors' remuneration – Group (excluding Company)

- audit fee	**330**	422
- other assurance services	**59**	59
- tax advisory services	**193**	143
- other non audit services	**220**	260
Total auditors' remuneration - Group	**802**	884
Auditors' remuneration - Company		
- audit fee	**10**	10
- other assurance services	**-**	-
- tax advisory services	**-**	-
- other non audit services	**-**	-
Total auditors' remuneration - Company	**10**	10
Directors' emoluments	**2,748**	2,683

* Further information on Director's emoluments is included in the Report of the Remuneration Committee on Directors' Remuneration on pages 61 to 70.

9 Net exceptional items

Exceptional gains (net) comprise:

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

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

(b) Restructuring and termination costs

Restructuring

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

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

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

Termination

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

As at 31 December 2013, 119 applicants had been accepted and had left employment with Aer Lingus. A further 5 applicants have formally agreed to participate in the Programme and leave employment with Aer Lingus during 2014. The related severance cost, including provisions, for these Programme participants of €8.9 million represents a termination cost under IAS 19R and is recognised within the 2013 restructuring and termination charge above. Liabilities for unpaid termination benefits at the period end are included within business repositioning provisions (see Note 27).

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

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

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

10 Finance income and expense

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

11 Employee benefits

The average number of persons (Full Time Equivalents) employed by the Group in the financial year was 3,615 (2012: 3,566) split as follows:

	2013	2012
Operations and administration	**3,567**	3,517
Sales and marketing	**48**	49
	3,615	3,566

The associated payroll costs of these persons were as follows:

	2013	2012
	€'000	€'000
Wages and salaries	**230,746**	220,323
Social welfare costs	**21,447**	21,774
Pension costs (Note 25, 26)	**21,941**	21,278
Share based payments (Note 31)	**3,219**	3,389
	277,353	266,764

Termination benefits paid or payable to staff who left the Group during the year or who were committed to leave at year end are disclosed within Note 9.

12 Income tax

	2013	2012
	€'000	€'000
(i) **Income tax charge recognised in the Income Statement**		
Current taxation		
Withholding tax deducted at source	**18**	18
Foreign taxes paid	**19**	19
	37	37
Deferred tax		
Origination and reversal of temporary differences	**5,433**	6,506
Total income tax charge	**5,470**	6,543

(ii) Reconciliation of effective tax rate	**2013**	2012
	€'000	€'000
Profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2012: 12.5%)	**4,945**	5,071
Effects of:		
Expenses not deductible for tax purposes	**138**	1,123
Differences in tax rates	**6**	57
Other adjusting items	**381**	292
Income tax charge for the year	**5,470**	6,543

13 Basic and diluted profit per share

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

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

	2013	2012 (as restated)
Profit attributable to owners of the parent (€'000s)	**34,088**	33,852
Weighted average number of ordinary shares in issue (000s)	**531,822**	530,093
Basic and diluted profit per share (cent per share)	**6.4**	6.4

	2013	2012
Weighted average number of ordinary shares in issue (000s)	**531,822**	530,093
Dilutive effect of options and long term incentive plan (000s)	**4,597**	158
Weighted average number of ordinary shares for dilutive earnings per share (000s)	**536,419**	530,251

14 Property, plant and equipment

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

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

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

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

One of the Group's owned aircraft and one aircraft which the Group holds under a finance lease are subleased to third parties. The minimum duration of these leases is to 28 March 2015. Minimum amounts receivable under the subleases are €16.7 million, of which €11.4 million is due in less than 1 year with the remaining €5.3 million due in years 2 to 5. In 2013, these aircraft had a cost of €87.6 million, accumulated depreciation of €53.6 million and a net book value of €34.0 million. Depreciation in the current year amounted to €5.0 million.

Reconciliation of depreciation charge

	2013	2012
	€'000	€'000
Included in accumulated depreciation in consolidated statement of financial position		
Depreciation of property, plant and equipment	**79,431**	76,634
Amortisation of intangible assets (Note 15)	**3,496**	2,819
	82,927	79,453
Depreciation and amortisation charged to the income statement		
Depreciation and amortisation	**82,927**	76,079
Other revenue[1]	**-**	3,041
Ground operations, catering and other operating costs[2]	**-**	333
	82,927	79,453

[1] Amounts reflected in other revenue in 2012 related to depreciation incurred on the aircraft used in the extended codeshare agreement with United Airlines. The Group's share of the net profit or loss associated with its extended codeshare agreement with United Airlines was reported within Other revenue. This agreement terminated during 2012.

[2] Amortisation of the Group's licence to occupy DAA plc owned property (see Note 15) was reported in 2012 within Ground operations, catering and other operating costs.

Impairment tests for items of property, plant and equipment are performed on a cash generating unit basis when impairment triggers arise. One such impairment trigger as indicated by IAS 36 Impairment of Assets is where the carrying amount of an entity's net assets is more than its market capitalisation. As at 31 December 2013, the market capitalisation of the Group was less than its net asset value and an impairment assessment was performed to determine whether long-lived assets were impaired.

Assets are deemed to be impaired when their carrying value is higher than their recoverable value. The recoverable values are assessed based on the higher of fair value less costs to sell and value-in-use. A value-in-use basis was used by the Group to calculate recoverable value with the entire business treated as a single cash generating unit. The Group believes that a single cash generating unit is the appropriate level at which to test impairment on the basis that its fleet assets are interchangeable and are deployed through a single route planning system. Cashflows for individual fleet assets cannot be determined as such cashflows are dependent on how each plane is deployed and given the inter-changeability of fleet assets, the Group has determined that, the Group as a whole represents the smallest identifiable group of assets that generate interdependent cashflows.

Value-in-use calculations are based on cash flow projections contained in forecasts approved by the Board of Directors for the remaining life of the assets in question and exclude expansion capital expenditure. Specific forecasts have been prepared for the period 2014-2018, with a long term assumption for growth of the business from 2019. Amounts included in the forecasts in respect of both revenue and operating costs reflect recent experience and management's expectation of long term market trends. The average operating margin included in the forecasts is consistent with historic experience over the medium term, having also taken into account the Group's present operating structure and factors which mean that less recent historic experience is less relevant. The long term growth rate assumed in the forecasts of 2.1% is assessed as reasonable given historic experience and current expectations in the Group's primary domestic, international and intercontinental markets over the medium term.

The cash flow projections are discounted using a discount rate representing the Group's estimated average cost of capital (2013: 10.2%, 2012: 10.2%).

Sensitivity analysis has been performed reflecting potential variations in assumptions about future trading and the discount rate. In all cases the recoverable values calculated were in excess of the carrying value of the assets of the cash generating unit.

Accordingly, no impairment charges arose during 2013 or 2012 for property, plant and equipment, except for the write down in 2012 of an A320 aircraft previously held for sale.

15 Intangible assets

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

[1]Licence to occupy certain DAA owned property

16 Investment in Joint Venture

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

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

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

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

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

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

Summarised financial information for the joint venture

The table below sets out summarised financial information for Propius Holdings Limited. The Group accounts for this investment under the equity method, including recognition of the Group's share of post acquisition results. Propius Holdings Limited is an entity incorporated within the Cayman Islands, whose registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104. The principal place of business of the entity is the Republic of Ireland.

The amounts below reflect the results of the entity translated from its reporting currency, US dollars, into the Group's reporting currency, euro, at the average exchange rate for the year, and reflect the opening and closing assets and liabilities of the entity at the relevant rates.

Summarised balance sheet	**2013**	2012
	€'000	€'000
Current assets and liabilities		
Cash and cash equivalents	**4,012**	1,004
Other current assets	**3,655**	17,295
Total current assets	**7,667**	18,299
Financial liabilities	**(6,174)**	-
Other liabilities (including trade payables)	**(2,097)**	(655)
Total current liabilities	**(8,271)**	(655)
Non-current assets and liabilities		
Non-current assets	**104,286**	14,146
Financial liabilities	**(60,512)**	-
Other liabilities	**(1,373)**	-
Total non-current liabilities	**(61,885)**	-
Net assets	**41,797**	31,790

Summarised statement of comprehensive income	**2013**	2012 (7 weeks)
	€'000	€'000
Revenue	**3,789**	-
Depreciation	**(1,648)**	-
Other operating expenses	**(702)**	(586)
Interest expense	**(1,448)**	-
Other net income	**64**	-
Profit/(loss) on operating activities before tax	**55**	(586)
Profit/(loss) on operating activities after tax, being total comprehensive income	**18**	(586)

Reconciliation of summarised financial information	**2013**	2012 (7 weeks)
	€'000	€'000
Opening net assets at 1 January	**31,790**	-
Total comprehensive income for the period including movements on retranslation reserves	**553**	(586)
Issue of share capital	**10,934**	33,116
Retranslation of closing net assets from US dollar to euro	**(1,480)**	(740)
Closing net assets	**41,797**	31,790
Interest in the joint venture at 33.3%	**13,933**	10,597

17 Group undertakings

Aer Lingus Group plc is incorporated under the Irish Companies Acts, 1963 to 2013. Its head office is at Dublin Airport, Co. Dublin, Ireland. It is the ultimate parent company in the Aer Lingus Group.

The principal group companies are Aer Lingus Limited, Aer Lingus (Ireland) Limited and Dirnan Insurance Company Limited all of which are wholly owned. Aer Lingus Limited is incorporated in Ireland and is the principal operating company. Aer Lingus (Ireland) Limited is also incorporated in Ireland and employs former employees of SR Technics who provide maintenance service on the Aer Lingus fleet and certain categories of new employees joining the Group. Dirnan Insurance Company is incorporated in Bermuda and its principal activity previously was handling claims on expired insurance policies. During the year, all of the outstanding claims were commuted to third party insurers, with the exception of one claim which Dirnan Insurance Company is continuing to handle.

ALG Trustees was established in 2007 to manage the Group's Long Term Incentive Plan (LTIP). The Group consolidates ALG Trustees Limited in the Group Accounts.

Details of the Group's subsidiary undertakings are as follows:

Name of entity	**Country of incorporation and place of business**	**Nature of business**	**Proportion of ordinary share capital held %**
Aer Lingus Limited	Republic of Ireland	Operation of an international airline	100
Aer Lingus (Ireland) Limited	Republic of Ireland	Provision of human resources support to fellow group companies	100
Dirnan Insurance Company Limited	Bermuda	Insurance claims management	100
Aer Lingus ESOP Trustee Limited	Republic of Ireland	Trustee company	100
Aer Lingus Beachey Limited	Isle of Man	Dormant	100
Aberport Limited	Republic of Ireland	Dormant	100
Aer Lingus Northern Ireland Limited	UK	Dormant	100
Easthills Limited	UK	Dormant	100
Dirnan Ireland Limited	Republic of Ireland	Dormant	100
Santain Developments Limited	Republic of Ireland	Dormant	100
Shinagh Limited	Republic of Ireland	Dormant	100

Full details of all group companies will be filed with the Company's annual return, which will be available from the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

18 Other financial assets

Loans and receivables

	2013	2012
	€'000	€'000
At 1 January	**43,373**	42,180
Interest income	**1,902**	1,879
Retranslation	**(1,646)**	(686)
At 31 December	**43,629**	43,373
Current element	**(31,887)**	-
Non-current element	**11,742**	43,373

There were no impairment provisions for loans and receivables in the current or prior year.

Loans and receivables comprise the following:

	2013	2012
	€'000	€'000
Zero-coupon debt securities traded on inactive markets with maturity dates from August 2014 to February 2015	**43,629**	43,373

These assets are unlisted securities denominated in US dollars. They are mainly held in order to meet certain finance lease obligations denominated in the same currency and with the same maturity.

The maximum exposure to credit risk at the reporting dates is the carrying amount of the debt securities classified as loans and receivables. None of the debt securities are either past due or expired.

As at 31 December 2013, if the financial assets had not been previously reclassified from available for sale financial assets, the fair value and carrying value of these financial assets would have been €43.9 million (31 December 2012: €43.8 million) and €43.5 million (31 December 2012: €43.1 million) respectively, which would have resulted in a fair value loss in equity of €0.2 million (2012: gain of €0.1 million). The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium appropriate to the unlisted securities. €0.2 million (2012: €0.1 million) was amortised from the available-for-sale reserve to the income statement in the year.

The effective interest rates of the financial assets reclassified into loans and receivable at the date of reclassification were 4.3%.

The estimated undiscounted cash flows that the Group expects to recover from the remaining financial assets reclassified from available for sale financial assets in 2008 was:

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over five years
	€'000	€'000	€'000	€'000
Unlisted debt securities:	32,876	12,336	-	-

19 Derivative financial instruments

	2013	2013	2012	2012
	€'000	**€'000**	€'000	€'000
	Assets	**Liabilities**	Assets	Liabilities
Interest rate swap	**-**	**-**	-	595
Forward foreign exchange contracts	**525**	**14,208**	1,711	7,399
Forward fuel price contracts	**10,868**	**281**	3,835	4,072
Total	**11,393**	**14,489**	5,546	12,066
Less non-current portion:				
Interest rate swap	**-**	**-**	-	595
Forward foreign exchange contracts	**17**	**208**	20	107
Forward fuel price contracts	**1,251**	**7**	987	144
Total non-current portion	**1,268**	**215**	1,007	846
Current portion	**10,125**	**14,274**	4,539	11,220

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

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

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

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

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

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

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

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

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

20 Inventories

	2013	2012
	€'000	€'000
Sundry inventory	**2,536**	2,235

Sundry inventory primarily comprises catering and retail stock for sale on board.

There were no write-downs of inventory during the current or prior year.

21 Trade and other receivables

Group

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

Shown as:

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

[1]See Basis of Preparation Note (v).

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

The fair value of trade and other receivables equate to their book value at 31 December 2013 and 2012. The maximum exposure to credit risk is the fair value of trade and other receivable above.

The movements in provision for impairment of trade receivables during the year were as follows:

	2013	2012
	€'000	€'000
At 1 January	**1,658**	7,208
Increase during the year	**1,096**	-
Reduction in impairment provision	**-**	(4,830)
Utilisation during the year	**(1,096)**	(720)
	1,658	1,658

The creation and release of provisions for impairment of trade receivables have been included in "Ground operations, catering and other operating costs" within the Income Statement except for the reduction in impairment provision of €4.8 million which was treated as exceptional in 2012. Amounts receivable are charged to the provision account when there is no expectation of recovering the amounts outstanding.

There is no geographical concentration of credit risk with respect to trade and other receivables as the Group has a large and widely dispersed customer base.

At 31 December 2013, trade and other receivables of €6.5 million (2012: €8.7 million) were past due but not impaired. In all cases, there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2013	2012
	€'000	€'000
Up to 1 month past due	**5,173**	5,333
Over 1 month past due	**1,322**	3,353
	6,495	8,686

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2013	2012
	€'000	€'000
Euro	**73,297**	55,489
US dollar	**36,655**	39,092
Sterling	**6,228**	4,866
Other currencies	**624**	340
	116,804	99,787

Company

	2013	2012
	€'000	€'000
Amounts due from subsidiary undertakings	**666,738**	603,825
Other amounts receivable	**-**	57
	666,738	603,882

Shown as:

	2013	2012
	€'000	€'000
Current assets	**666,738**	603,882

Amounts due from subsidiary undertakings are non interest bearing and are repayable on demand. During 2013, the Group's cash deposits were lent to its principal subsidiary.

The Company's receivables are solely denominated in euro.

22 Loans, deposits, cash and cash equivalents

Group

The Group's gross cash balances consist of loans and receivables, deposits and cash and cash equivalents

	2013	2012
	€'000	€'000
Non-current		
Loans and receivables (Note 18)	**11,742**	43,373
Deposits	**101,752**	119,716
	113,494	163,089
Current		
Loans and receivables (Note 18)	**31,887**	-
Deposits	**563,229**	432,504
Cash and cash equivalents	**188,805**	312,939
	783,921	745,443
Total gross cash	**897,415**	908,532

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

Current deposits have maturity terms of between three and twelve months at year end. Given that the maturity of these investments falls outside the three month timeframe for classification as cash and cash equivalents under *IAS 7 Statement of Cash Flows*, the related balances have been treated as "deposits". The effective interest rate on financial assets classified as current deposits as at 31 December 2013 was 0.34% (2012: 0.54%). These deposits have a weighted average maturity of 131 days (2012: 130 days) as at 31 December 2013.

The Group holds deposits in order to meet certain finance lease obligations, which are denominated in the same currency, and non-current deposits are mainly comprised of these. The deposits, together with the interest receivable thereon, will be sufficient to meet in full the lease obligations and related lease interest over the period of the leases. Restricted deposits are also held to meet certain lease obligations.

Excluding loans and receivables, the carrying amount of the Group's cash, cash equivalents and other deposits are denominated in the following currencies:

	2013	2012
	€'000	€'000
Euro	**559,855**	538,617
US dollar	**331,250**	318,187
Sterling	**4,956**	5,487
Other	**1,354**	2,868
	897,415	865,159

Company

The Company's gross cash balances consist of cash and cash equivalents:

	2013	2012
	€'000	€'000
Current		
Cash	**8**	84,203

In 2013, the Company's cash balance was lent to its principal subsidiary.

23 Trade and other payables

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

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

All trade and other payables are expected to be settled within 12 months of the period end date and so have been classified as current liabilities.

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

24 Finance lease obligations

	2013	2012
	€'000	€'000
Repayable – within one year	**114,321**	41,979
– from one to two years	**84,264**	118,043
– from two to five years	**120,186**	143,293
– after five years	**158,827**	228,272
	477,598	531,587
Less current portion	**(114,321)**	(41,979)
Non-current portion	**363,277**	489,608

All finance lease obligations are secured on the aircraft to which they relate (see also Note 14).

The carrying amounts and fair value of the borrowings are as follows:

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Finance lease obligations	**477,598**	531,587	**470,031**	534,405

The fair values are based on cash flows discounted using a rate based on prevailing forward market rates. In 2013, these rates ranged from 0.18% to 2.3%.

The carrying amounts of short-term borrowings approximate their fair values.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2013	2012
	€'000	€'000
Euro	**160,529**	181,503
US dollar	**317,069**	350,084
	477,598	531,587

The effective interest rates at the reporting date were as follows:

	2013		2012	
	€	**$**	€	$
Finance lease obligations	3.2%	2.1%	3.2%	2.1%

Finance lease obligation – minimum lease payments

	2013	2012
	€'000	€'000
No later than one year	**132,802**	63,789
Later than one year but no later than five years	**249,794**	316,070
Later than five years	**163,992**	246,162
	546,588	626,021
Future finance charges on finance leases	**(68,990)**	(94,434)
Capital value of finance lease liabilities	**477,598**	531,587

The Group had no undrawn borrowing facilities at 31 December 2013 or 31 December 2012.

25 Defined contribution pension schemes

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

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

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

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

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

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

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

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

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

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

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

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

The key elements of the IASS Proposal are:

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

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

Specifically, it is expected that the IASS Proposal would:

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

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

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

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

Recent developments

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

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

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

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

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

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

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

Aer Lingus Limited notes the recent service of notice of industrial action by the SIPTU trade union which was subsequently prevented by a High Court injunction.

On 3 March 2014, a joint statement was issued by the Department of Transport, Tourism and Sport, the Department of Jobs, Enterprise and Innovation, IBEC and ICTU proposing the formation of an Expert Panel to engage in discussions with relevant stakeholders regarding the IASS. The statement describes the purpose of the Expert Panel as the carrying out of an urgent investigation as to how a final resolution of the industrial relations issues relating to the IASS can be secured. Aer Lingus Limited believes that the Interim Recommendation and Final Recommendation remain the only basis upon which a fair and balanced outcome can be achieved and is willing to engage with the Expert Panel to facilitate their full and speedy implementation. To that end, Aer Lingus Limited will engage constructively with the Expert Panel on a voluntary and non-binding basis.

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

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

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

26 Post employment benefit obligations

The following is a summary of the Group's employee benefit obligations and their related funding status:

	2013	2012
	€'000	€'000
Present value of funded obligations	**(12,245)**	(14,422)
Fair value of plan assets	**10,570**	9,770
Deficit in funded plans	**(1,675)**	(4,652)
Present value of wholly unfunded obligations	**(26,579)**	(30,206)
Net employee benefit liabilities	**(28,254)**	(34,858)

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

	2013	2012
	€'000	€'000
Funded		
North American Pension	**2,037**	4,309
Other	**(362)**	343
	1,675	4,652
Unfunded		
Post Retirement Income Streaming	**24,580**	27,922
North American Post Retirement Medical Benefit	**1,999**	2,284
	26,579	30,206

The charges to the income statement in respect of these obligations are as follows:

	2013	2012 as restated
	€'000	€'000
Funded (a)	**86**	120
Unfunded (b)	**2,683**	1,866
	2,769	1,986

Actuarial (gains)/losses recognised in the statement of other comprehensive income during the year:

	2013	2012 as restated
	€'000	€'000
Funded (a)	**(2,099)**	124
Unfunded (b)	**(6,302)**	4,550
	(8,401)	4,674

The dates of the most recent actuarial valuations in respect of the various schemes are as follows:

	Valuation Date
Funded	
North American Pension	31 December 2013
Other	31 December 2013
Unfunded	
Post Retirement Income Streaming	31 December 2013
North American Post Retirement Medical Benefit	31 December 2013

Valuations are not available for public inspection; however they are available to the members of the above schemes.

The North American Pension schemes apply the regulations of The Employee Retirement Income Security Act of 1974 (ERISA) and The Internal Revenue Code. The Employee Retirement Income Security Act of 1974 is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans. The Internal Revenue Code, as set forth by the Internal Revenue Service, also provides regulations and guidance for the administration of pension and medical schemes.
The pension schemes set up under trust and operated by Aer Lingus in Ireland are exempt approved schemes under the Taxes Consolidation Act 1997 and are regulated by the Pensions Authority under the Pensions Act 1990 (Amended).

(a) Funded

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

The Group also operates a defined benefit scheme in respect of two retired Irish former executives of the Group and their spouses.

The risks of these schemes relate primarily to demographic assumptions around mortality and to future asset performance. Future financial statement liabilities and expense will also be affected by future changes in the rate used to discount the liabilities. The Group seeks to match the assets it holds in respect of funded schemes to the liabilities of the plans, in terms of currency and maturity, and also seeks to balance risk and return in making asset investment decisions which match investment yield to expected cash outflows. The Group has not changed the process used to manage its risks from previous periods.

The movement in the defined benefit obligation in respect of funded arrangements during the year is as follows:

	2013	2012
	€'000	€'000
At 1 January	**14,422**	14,481
Interest cost	**479**	587
Remeasurements – effect of changes in demographic assumptions	**34**	(2)
Remeasurements – effect of changes in financial assumptions	**(822)**	(67)
Remeasurements – effect of experience adjustments	**(657)**	38
Benefits paid	**(831)**	(615)
Retranslation	**(380)**	-
At 31 December	**12,245**	14,422

The movement in the fair value of related plan assets during the year is as follows:

	2013	2012 (as restated)
	€'000	€'000
At 1 January	**9,770**	9,405
Expected return on plan assets	**342**	467
Remeasurements – effect of experience adjustments	**654**	(155)
Employer contributions	**973**	613
Benefits paid	**(831)**	(552)
Taxes paid	**(9)**	(8)
Retranslation	**(329)**	-
At 31 December	**10,570**	9,770

The amounts recognised in the income statement are as follows:

	2013	2012 (as restated)
	€'000	€'000
Interest cost - recognised in finance expense	**479**	587
Expected return on plan assets - recognised in finance income	**(342)**	(467)
Retranslation – recognised in other gains/losses	**(51)**	-
Total recognised in income statement	**86**	120

The actual return on plan assets was €0.7 million (2012: €0.9 million)

Key Assumptions

The principal actuarial assumptions relating to funded schemes were as follows:

	2013	2012
Discount rate	**3.50-4.23%**	3.50%
Inflation rate	**2.00%**	2.00%
Future salary increases	**N/A**	N/A
Future pension increases	**0.00-2.50%**	0.00-2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into the following average life expectancy in years for a pensioner retiring at age 65:

	2013	2012
Retiring at the end of the reporting period:		
-Male	**19.2-24.2**	19.2 - 23.9
-Female	**25.7**	21.0
Person aged 45 retiring 20 years after the end of the reporting period:		
-Male (currently aged 45)	**26.8**	26.8
-Female (currently aged 45)	**27.9**	27.9

Sensitivities

The sensitivity of the overall post employment benefit liability to changes in the weighted principal assumptions is:

		Change in assumption	**Impact on overall liability**
Discount rate	North American Pension Scheme	Increase/decrease by 0.25%	Increase/decrease by 2.30%
Discount rate	Other	Increase/decrease by 0.25%	Decrease/increase by 2.80%
Inflation rate	Other	Increase/decrease by 0.25%	Increase/decrease by 4.70%

Plan assets are comprised as follows:

	2013		**2012**	
Equity instruments	**4,728**	**45%**	4,900	50%
Debt instruments	**5,717**	**54%**	4,641	48%
Property	**18**	**-%**	-	-%
Other	**107**	**1%**	229	2%
Total	**10,570**	**100%**	9,770	100%

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of scheme assets. The largest proportion of assets is invested in bonds, although the schemes also invest in equities, property and cash.

Expected contributions to funded post-employment benefit plans for the year ending 31 December 2014 are €0.6 million.

The Group has agreed that it will aim to eliminate the deficit in the North American pension scheme over the next 6 years. The Group considers that the contribution rate set at the last valuation date of 31 December 2013 is sufficient to eliminate the deficit over the agreed period and that regular contributions will not increase significantly.

(b) Unfunded

The Group operates a post employment medical benefit scheme for certain former employees of the operation in North America. The scheme has 67 members (2012: 72).

The Group operates an income streaming arrangement in respect of certain current and former employees who have an elective entitlement to a pension at 60. These arrangements provide an income equating to a pension until members reach age 65, at which point benefits cease.

The risks of these schemes relate primarily to future medical cost inflation and to financial assumptions including changes to discount rates. The Group has not changed the process used to manage its risks from previous periods.

The amounts recognised in the statement of financial position are as follows:

	2013	2012
	€'000	€'000
Present value of unfunded obligations, being scheme deficits and liability in the statement of financial position	**26,579**	30,206

The movement in the defined benefit obligation in respect of unfunded arrangements during the year is as follows:

	2013	2012
	€'000	€'000
At 1 January	**30,206**	23,906
Current service cost	**1,713**	915
Interest cost	**1,022**	951
Remeasurements – effect of changes in demographic assumptions	**(1,521)**	31
Remeasurements – effect of changes in financial assumptions	**(2,352)**	4,912
Remeasurements – effect of experience adjustments	**(2,429)**	(393)
Benefits paid	**(8)**	(116)
Retranslation	**(52)**	-
At 31 December	**26,579**	30,206

The amounts recognised in the income statement are as follows:

	2013	2012
	€'000	€'000
Current service cost - recognised in staff costs	**1,713**	915
Interest cost - recognised in finance expense	**1,022**	951
Retranslation – recognised in other gains/losses	**(52)**	-
Total recognised in income statement	**2,683**	1,866

Key Assumptions

The principal actuarial assumptions relating to unfunded schemes are as follows:

	2013	2012
Discount rate	**3.95-4.30%**	3.50%-3.90%
Inflation rate	**2.00%**	2.00%
Future long term medical cost inflation	**5.00%**	5.00%
Future salary increases	**3.00%**	3.00%
Future pension increases	**0.50%**	0.50%

It is assumed that all those reaching 60 will reach 65, at which point benefits under the income streaming arrangement cease.

Sensitivities

The sensitivity of the post employment benefit liabilities to changes in the weighted principal assumptions is:

		Change in assumption	**Impact on overall liability**
Short term medical costs	North American Medical Scheme	Increase/decrease by 1.00%	Increase by 9.77%/decrease by 8.98%
Discount rate	North American Medical Scheme	Increase/decrease by 0.25%	Decrease/Increase by 2.5%
Discount rate	Income streaming	Increase/decrease by 0.25%	Decrease/increase by 5.17%
Inflation rate	Income streaming	Increase/decrease by 0.25%	Increase/decrease by 0.70%

Due to the unfunded nature of these arrangements, no contributions are expected during the year ending 31 December 2014.

Maturity analysis

The expected maturity of the undiscounted funded and unfunded schemes is as follows:

At 31 December 2013	Less than a year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Funded	1,233	778	2,648	11,592	16,251
Unfunded	299	385	2,477	8,494	11,655
Total	**1,532**	**1,163**	**5,125**	**20,086**	**27,906**

27 Provisions for other liabilities and charges

	Business repositioning[1] €'000	Aircraft maintenance[2] €'000	Other [3] €'000	Total €'000
At 1 January 2012	29,903	37,991	13,610	81,504
Provided during the year	15,106	14,024	977	30,107
Written back during the year	(75)	(1,705)	-	(1,780)
Utilised during the year	(12,513)	(12,676)	228	(24,961)
At 31 December 2012	32,421	37,634	14,815	84,870
At 1 January 2013	32,421	37,634	14,815	84,870
Provided during the year	12,984	20,234	261	33,479
Written back during the year	-	(1,255)	(311)	(1,566)
Utilised during the year	(26,181)	(13,426)	(210)	(39,817)
Unwind of discounting	213	133	127	473
Retranslation	8	(715)	-	(707)
At 31 December 2013	19,445	42,605	14,682	76,732
Analysed as current liabilities				
31 December 2013	**12,493**	**3,270**	**3,342**	**19,105**
31 December 2012	16,171	9,804	3,757	29,732
Analysed as non-current liabilities				
31 December 2013	**6,952**	**39,335**	**11,340**	**57,627**
31 December 2012	16,250	27,830	11,058	55,138
Total provision				
31 December 2013	**19,445**	**42,605**	**14,682**	**76,732**
31 December 2012	32,421	37,634	14,815	84,870

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

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

The provision relating to the 2013 Voluntary Severance Programme has been recorded in respect of individuals who at the reporting date had accepted the offer of voluntary severance.

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

[2] ***Aircraft maintenance***
A provision is made on a monthly basis for maintenance of aircraft held under operating leases. The provision will be utilised as the major airframe and engine overhauls take place. Aircraft maintenance also includes provision for the costs to meet the contractual return conditions on these aircraft. Measurement uncertainty associated with maintenance provisions arise from the timing and nature of overhaul activity required and sensitivity in projected flight hours. The provision is expected to be materially utilised over the next six financial years.

[3] ***Other***
Other provisions relate mainly to the frequent flyer programme and free flight entitlements in respect of former employees. The frequent flyer provision is utilised when points are used or when they become non-redeemable. Points are redeemable for a maximum of three years. Measurement uncertainty associated with the frequent flyer and free flight programmes typically arise from variances in estimates of flight utilisation and length of sectors flown by programme members.

28 Contingent liabilities and assets

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

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

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

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

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

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

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

Operating lease costs contingent liability
The Group entered into an operating lease for certain non flight equipment which developed technical issues in March 2014. The directors believe an adequate solution to these issues has been found. If, contrary to expectations, this solution is not effective, the Group may still have an obligation to make lease payments for the remainder of the five year term of approximately €2 million which management would seek to reduce by recovering costs from the manufacturer. No provision has been made for this matter at year end.

29 Deferred tax

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

	2013	2012
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	**54,216**	57,134
Deferred tax liability to be recovered after more than 12 months	**(58,080)**	(55,804)
Deferred tax (liability)/asset	**(3,864)**	1,330

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

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	**Provisions**	**Tax losses**	**Share based payments**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
At 1 January 2012	3,246	53,116	-	56,362
(Charged)/ credited to the income statement	(888)	1,660	-	772
At 31 December 2012	2,358	54,776	-	57,134
(Charged)/credited to the income statement	(996)	(2,377)	455	(2,918)
At 31 December 2013	**1,362**	**52,399**	**455**	**54,216**

Deferred tax liabilities	**Accelerated tax depreciation**	**Derivative financial instruments**	**Available-for-sale reserve**	**Other**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
At 1 January 2012	44,456	3,679	55	3,243	51,433
Charged to the income statement	7,019	-	-	259	7,278
Credited directly to equity	-	(2,659)	(18)	(230)	(2,907)
At 31 December 2012	51,475	1,020	37	3,272	55,804
Charge to the income statement	2,306	-	-	209	2,515
(Credited)/charged directly to equity	-	(431)	(20)	212	(239)
At 31 December 2013	**53,781**	**589**	**17**	**3,693**	**58,080**

Deferred tax charged directly to equity is as follows:

	2013	2012
	€'000	€'000
Fair value reserves in shareholders' equity		
- Cash flow hedging reserve	**(431)**	(2,659)
- Revaluation reserve on available-for-sale financial assets	**(20)**	(18)
- Other	**212**	(230)
	(239)	(2,907)

The Group continues to hold unutilised capital losses forward of €1.3 million in respect of which no deferred tax asset is recognised (2012: €1.3 million).

The Directors are satisfied, based on expected future performance, as indicated by the Group's five year projections, that there is a reasonable basis on which to recognise the deferred tax assets.

30 Called-up share capital

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

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

In March 2013, following the vesting of awards granted under the 2010 cycle of the Group's Long Term Incentive Plan ("LTIP") scheme the vested awards of participants were settled, resulting in 1,917,052 treasury shares being issued by the Group to LTIP participants. No new treasury shares were subscribed for or purchased by ALG Trustee Limited during the year.

Share capital
The authorised share capital of the Group comprises ordinary shares.

Restriction on transfer of shares
The Directors, in their absolute discretion and without assigning any reason therefore, many decline to register any transfer of a share which is not fully paid or any transfer to or by a minor or person of unsound mind but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.

The Directors may also refuse to register any instrument of transfer (whether or not it is in respect of a fully paid share), unless it is: a) lodged at the Registered Office or at such other place as the Directors may appoint; b) accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; c) in respect of only one class of shares; and d) in favour of not more than four transferees.

Share rights
Subject to the Articles of Association of Aer Lingus Group plc the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall be distributed amongst the holders of ordinary shares, in proportion to the numbers of ordinary shares held by them, of the nominal value of their ordinary shares.

Restriction of rights
If the Directors determine that a "Specified Event" as defined in the Articles of Association of Aer Lingus Group plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of 14 days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Group or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

The Directors shall, where the shares specified in such notice represent not less than 0.25 per cent of the class of shares concerned, be entitled; to withhold payment of any dividend or other amount payable (including shares issuable in lieu of dividend) in respect of the shares specified in such notice; and/or to refuse to register any transfer of the shares specified in such notice or any renunciation of any allotment of new shares made in respect thereof unless such transfer or renunciation is shown to the satisfaction of the Directors to be a bone fide transfer or renunciation to another beneficial owner unconnected with the holder or holders or any person appearing to have an interest in respect of which a notice has been served.

Share Ownership Restrictions to protect Air Carrier Rights
Since the Company's entitlement to obtain or to continue to hold or enjoy the benefit of the licences, permits, consents or privileges that enable the Company to carry on business as an air carrier in Ireland and/or internationally (''the Company's air carrier rights''), can be adversely affected if too many of the Ordinary Shares are held by persons who are not regarded as EU nationals ("Non-Qualifying Nationals"), the Directors are given certain powers under the Articles of Association to take action to ensure that shareholdings of Non-Qualifying Nationals in the Company's share capital are not of such a size or type which could jeopardise the Company's air carrier rights. The Directors have the power to designate a maximum percentage of the Company's share capital (a ''Permitted Maximum'') which may be held by Non-Qualifying Nationals and have determined that this will initially be in excess of 45% but less than 50%. This percentage may be varied by the Directors from time to time.

Restrictions on the Disposal of London Heathrow Slots
The Articles of Association contain provisions requiring shareholder approval for the disposal of landing and departure slots allocated to the Company at London Heathrow Airport. If the Group proposes to dispose of any of the slots at London Heathrow that it was using in September 2006, it is required to notify shareholders in the manner set out in the Articles of Association, and shareholders representing 20% or more of the issued Ordinary Shares may require, within 28 days of notification, that the matter be submitted to an extraordinary general meeting. The disposal may proceed if at the extraordinary general meeting the relevant resolution is passed by not less than X% of the votes cast at such meeting (where "X" is equal to 100 minus the percentage of the Ordinary Shares held by the Minister for Finance at the record date of such meeting of the Company, expressed as a percentage of the total number of issued Ordinary Shares as at such record date, plus 5%) provided that if the value of "X" under this formula is greater than 75, "X" shall be deemed to be 75.

31 Share premium, capital conversion reserve fund, capital redemption reserve fund and other reserves

	2013	2012
	€'000	€'000
Share premium		
At 1 January	**510,605**	510,605
Capital reduction (see below)	**(151,156)**	-
At 31 December	**359,449**	510,605

	2013	2012
	€'000	€'000
Capital conversion reserve fund		
At 1 January	**5,048**	5,048
Capital reduction (see below)	**(5,048)**	-
At 31 December	**-**	5,048

	2013	2012
	€'000	€'000
Capital redemption reserve fund		
At 1 January	**343,796**	343,796
Capital reduction (see below)	**(343,796)**	-
At 31 December	**-**	343,796

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

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

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

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

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

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

	2013	2012
	€'000	€'000
Other reserves		
Cash flow hedging reserve		
At 1 January	**7,069**	25,681
Movement in the period	**(3,443)**	(21,271)
Deferred tax on movement in the period	**430**	2,659
At 31 December	**4,056**	7,069
Available-for-sale reserve		
At 1 January	**264**	393
Movement in the period	**(161)**	(147)
Deferred tax on movement in year	**20**	18
At 31 December	**123**	264
Treasury shares		
At 1 January	**(5,615)**	(5,615)
Exercise of LTIP awards	**2,728**	-
At 31 December	**(2,887)**	(5,615)
Share based payment reserve		
At 1 January	**5,865**	2,900
Exercise of LTIP awards	**(3,607)**	-
Movement in the period	**3,219**	3,389
Deferred tax on movement in the period	**838**	(424)
At 31 December	**6,315**	5,865
Retranslation reserve		
At 1 January	**-**	-
Retranslation of investment in Joint Venture	**(481)**	-
At 31 December	**(481)**	-
Total other reserves	**7,126**	7,583

Share premium
The share premium account arises from amounts paid up on issued share capital in excess of the nominal values of the shares issued.

Capital conversion reserve fund
The capital conversion reserve fund balance was attributable to the re-denomination of the nominal value of the Group's shares from punt to euro in 2000.

Capital redemption reserve fund
The capital redemption reserve fund balance was attributable to shares which were purchased and cancelled by the Group prior to its initial public offering for nil consideration pursuant to Sections 41(2) and 43 of the Companies (Amendment) Act, 1983.

Cash flow hedging reserve
The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax), principally relating to fuel and forward currency contracts.

Available-for-sale reserve
The available for sale reserve is attributable to the unamortised portion of fair value gains realised on the reclassification of available for sale bonds to loans and receivables in 2008. The reserve is amortised over remaining bond maturity periods.

Treasury shares
The treasury shares reserve comprises the cost of Aer Lingus Group plc ordinary shares held in order to fulfil awards under the Group's share based payment schemes.

Share based payment reserve
The reserve comprises amounts expensed in the Group Income Statement in connection with awards made or options issued under the Group's share based payment schemes, less any exercises or lapses of such awards or options.

In the Statement of Financial Position of the Company, the share based payment reserve reflects the increase in the Company's investment in Aer Lingus Ltd in respect of awards granted to employees of Aer Lingus Limited, as consideration for services provided to the Company.

Retranslation reserve
The retranslation reserve comprises the retranslation of the Group's investment in a foreign denominated Joint Venture.

Outstanding options and awards

	Options		LTIP Schemes	
	2013	2012	2013	2012
Awards outstanding at 1 January	1,500,000	1,500,000	12,674,629	9,522,994
Forfeitures during year	-	-	(84,000)	(1,438,365)
Exercised/vested during year	-	-	(3,948,076)	-
Grants during year	-	-	3,110,000	4,590,000
Awards outstanding at 31 December	1,500,000	1,500,000	11,752,553	12,674,629
Exercisable at year end	1,000,000	500,000	NIL	NIL
Range of exercise price (€)	0.573 – 0.886	0.573 – 0.886	N/A	N/A
Remaining weighted average contractual life	5.7 years	6.7 years	2.0 years	2.0 years

Long Term Incentive Plan ("LTIP")
The Group operates an LTIP in respect of certain Executive Directors and senior managers, which is designed to further align the interests of such executives and senior managers with those of shareholders. The LTIP is a share based performance award scheme, which provides for the vesting of shares subject to the achievement of minimum performance objectives measured over a three year period. The LTIP is tied to achievement of both a targeted Business Performance Measure (selected by the Remuneration Committee) and to Total Shareholder Return (TSR). The TSR element is assessed against a peer group of European airlines and the companies of the ISEQ general index. The Business Performance Measure is set by the Remuneration Committee, as described below. The maximum award under the LTIP is 150% of base salary. The maximum number of shares that can vest is set at 125% of the shares which are the subject of the award, for superior performance. Awards under the LTIP can be made on an annual basis at the discretion of the Remuneration Committee.

Under the terms of the Group's LTIP an early vesting of an award may occur at the discretion of the Remuneration Committee on a change of control of the Company. As at the reporting date, 2,029,606 shares (2012: 3,946,658 shares) are held as Treasury Shares in respect of the LTIP and are registered in the name of ALG Trustee Limited. Any voting rights attaching to the shares are exercised in the absolute discretion of the ALG Trustee Limited having regard to the interests of the LTIP participants. ALG Trustee is consolidated in the Group accounts and the shares are shown in the statement of financial position as a deduction from the Group's equity.

In March 2013, following the vesting of the awards granted under the 2010 cycle of the Group's LTIP, the vested awards of participants were settled which resulted in 1,917,052 treasury shares being issued to LTIP participants.

For awards issued in 2013, the Remuneration Committee set the Business Performance Measure which must be achieved in addition to the TSR measure before any award can vest as positive cumulative EBITDAR (before exceptional items) of, or in excess of €100 million during the performance period and positive EBITDAR as shown in the Company's consolidated financial accounts in the final year of the performance period (before exceptional items). Conditional awards granted under the Company's LTIP in the year ended 31 December 2013 amounted to 3,110,000 ordinary shares (2012: 4,590,000). The share price was €1.53 (2012: €0.95) at the date of the award and fair value was determined to be €0.98 (2012: €0.75).

Shares awarded under the Group's LTIP are equity settled share based payments as defined in IFRS 2 Share Based Payments. The IFRS requires that a recognised valuation methodology be employed to determine the fair value of shares awarded and stipulates that this methodology should be consistent with methodologies used for pricing of financial instruments. The expense of €3,158,717 (2012: €3,262,404) reported in the income statement has been arrived at through applying a Monte Carlo simulation technique to model the combination of market and non-market based performance conditions of the plan.

Impact on income statement

The LTIP expense (net of pre-vesting forfeitures) of €3.2m (2012: €3.3m) is analysed as follows:

	2013	2012
	€'000	€'000
2010 Long Term Incentive Plan		
Staff costs	**-**	1,423
2011 Long Term Incentive Plan		
Staff costs	**982**	960
2012 Long Term Incentive Plan		
Staff costs	**1,158**	879
2013 Long Term Incentive Plan		
Staff costs	**1,018**	-
Total	**3,158**	3,262

The fair value of the shares awarded were determined using a Monte Carlo simulation technique, taking account of peer group total share return volatilities and correlations, together with the following assumptions as at their grant date:

The 2011 awards will expire no later than 12 months after the end of their performance period, being the end of 2014.

The 2012 awards will expire no later than 12 months after the end of their performance period, being the end of 2015.

The 2013 awards will expire no later than 12 months after the end of their performance period, being the end of 2016.

	2013 award	2012 award	2011 award
Average risk free interest rate for peer group	0.99%	1.74%	3.50%
Expected volatility	36.40%	46.20%	58.00%
Dividend yield	4.58%	0.00%	0.00%

Expected volatility was determined by calculating the historical volatility of the Company’s share price, for a historical period commensurate with the expected life of the awards, ending on their valuation date.

Share options

On 8 September 2009, Mr. Christoph Mueller was granted share options in respect of 1,500,000 shares. The exercise price in respect of the options over 500,000 shares which became exercisable on 7 September 2012 and are exercisable until 7 September 2019 is €0.573 per share; the exercise price in respect of the options over 500,000 which became exercisable on 7 September 2013 and are exercisable until 7 September 2019 is €0.677 per share and the exercise price in respect of the options over 500,000 shares which may become exercisable on or after 7 September 2014 and are exercisable until 7 September 2019 is €0.886.

The share options granted during 2009 are equity settled share-based payments as defined in IFRS 2 Share-based Payments. The accounting standards require that a recognised valuation methodology be employed to determine the fair value of share options granted and stipulates that this methodology should be consistent with methodologies used for the pricing of financial instruments. The expense of €66,463 (2012: €126,600) reported in the income statement within staff costs has been arrived at through applying a binomial lattice option-pricing model. The weighted average fair value of the share options granted in 2009 at the measurement date was €0.37 per share. The inputs used in the option pricing model included a share price of €0.58 per share, a dividend yield of 0%, a risk free rate of 4.70% and volatility of 50.63%.

Company

Share based payment reserve	**2013 €'000**	2012 €'000 as restated
At 1 January	**5,865**	2,900
Exercise of LTIP awards	**(3,607)**	-
Share based payment reserve	**4,057**	2,965
At 31 December	**6,315**	5,865

32 Employee participation

Employee Share Ownership Trust ("ESOT")

The ESOT holds 102,907 shares of Aer Lingus Group plc (0.02% of the issued share capital) (2012: 114,188 shares). These shares are either unclaimed by beneficiaries or relate to deceased beneficiaries. The Trustee of the ESOT has approved the transfer of these shares as well as some surplus monies also held by the ESOT to Aer Lingus Group plc. Following this transfer, the ESOT will be wound up. Aer Lingus Group plc will then hold the shares in trust for the beneficiaries as treasury shares. This transfer is expected to occur during 2014.

33 Cash generated in operations

	2013	2012 as restated
	€'000	€'000
Profit before tax	**39,558**	40,395
Adjustments for:		
- Depreciation and amortisation	**82,927**	79,453
- Net movements in provisions for liabilities and charges	**(7,393)**	3,147
- Net fair value losses on derivative financial instruments	**(738)**	28
- Share options and awards expense	**(696)**	3,389
- Finance income	**(10,837)**	(14,661)
- Finance expense	**15,075**	16,664
- Net exceptional items	**(1,943)**	(877)
- Share of losses of joint venture	**(6)**	190
- Other losses/(gains) – net	**(14,483)**	12,473
- Post employment benefit obligations	**757**	285
Changes in working capital		
- Inventories	**(304)**	(742)
- Trade and other receivables	**(16,761)**	1,708
- Trade and other payables	**15,932**	(22,944)
Cash generated in operations	**101,088**	118,508

Company

	2013	2012
	€'000	€'000
Profit before tax	**27**	206
Adjustments for:		
- Finance income	**(31)**	(207)
Cash used in operations	**(4)**	(1)

34 Financial commitments

(a) Capital commitments

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

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

(b) Lease commitments

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

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

Three of the aircraft which the Group holds under operating leases are subleased to third parties. The minimum duration of these subleases is to 28 March 2015. Minimum amounts receivable under the subleases are €25.4 million, of which €20.4 is due in less than 1 year with the remaining €5.0 million due in years 2 to 5.

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

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

35 Related party transactions

Key management compensation[1,2]

	2013	2012
	€'000	€'000
Short-term employee benefits	**5,306**	5,475
Post employment benefits	**530**	495
Termination benefits	**440**	-
Share-based payments	**1,727**	1,984
	8,003	7,954

Of the total amount of key management compensation, €1,097,115 (2012: €2,377,359) was outstanding at 31 December.

[1] Key management compensation comprises all amounts in respect of Directors, Non Executive Directors and members of the Executive Management Team.

[2] No member of key management received a pay increase during 2013, however the pension contribution for Mr. Christoph Mueller increased as noted in the 'Report of the Remuneration Committee on Director's Remuneration' on page 64.

Amounts due to the Company from subsidiary undertakings are disclosed in Note 21. The Company's investment in its subsidiaries is set out in Note 36.
The Group's contributions to its post employment benefit obligations are disclosed in Notes 25 and 26.

Contributions and commitments in respect of the Group's joint venture are disclosed in Note 16.

The Group considers Pay and Shop Limited (trading as "Realex Payments") to be a related party for the purposes of IAS 24 by virtue of the fact that Mr. Laurence Crowley, Chairman of Realex Payments, is also a Non-Executive Director of Aer Lingus Group plc. The Group engages Realex Payments to provide on-line payment solutions. The Group's business relationship with Realex Payments predates the appointment of Mr. Crowley as Chairman of Realex Payments. During the year, the Group incurred expenditure of €531,882 (2012: €551,265) on services provided by Realex Payments. At the reporting date, there was a balance of €77,125 outstanding to Realex Payments from the Group (2012: €91,650). These amounts are recorded in trade payables.

The Minister for Finance of Ireland holds 25.11% of the Group's issued share capital and is entitled to appoint three directors to the Board. The Group considers that, for the purpose of IAS 24 (2009) the government of Ireland is in a position to exercise significant influence over it, and therefore regards the government of Ireland and various of its bodies, including the DAA, An Post and Tourism Ireland, as related parties for the purpose of the disclosures required by IAS 24 (2009).

The Group has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transactions with the DAA, Tourism Ireland or An Post.

A summary of the Group's transactions with the government of Ireland and its bodies is included below:

- The Group incurs rental charges in respect of office space, check in facilities and other operational facilities at various Irish airports. The Group also incurs passenger, landing and other charges for the use of these airports. The Group incurs air navigation charges as a result of services provided by the Irish Aviation Authority;
- The Group collects Airport Departure Tax and various payroll taxes on behalf of the Irish Revenue Commissioners and is liable to Irish Corporation Tax on profits earned, and to employer's PRSI on its payroll. The Group accounts for VAT in Ireland;
- The Group sells seats on its scheduled services to various Government bodies in the normal course of its business and has banking relationships with institutions now controlled by the Irish government. As an airline, the Irish Department of Transport is the Group's principal regulator; and
- Tourism Ireland and the Group engage in co-marketing activities.
- The Group utilises postal services in the normal course of its business from An Post, whose chairman is Christoph Mueller, the Chief Executive Office of the Group.

In addition to the transactions described above, during 2012 the Group provided a guarantee to the DAA in connection with the assignment of its interest in the lease of a hangar facility at Shannon airport. See Note 28 for details of this guarantee.

36 Investments in subsidiary undertakings

	2013	2012
	€'000	€'000
		as restated
Cost		
At 1 January	**246,273**	163,308
Investment in Aer Lingus Limited	**4,057**	82,965
At 31 December	**250,330**	246,273

During 2013, the Company made an investment of €4 million (2012: €2.9 million) in Aer Lingus Limited to reflect the increase in the Company's investment in Aer Lingus Limited in respect of awards granted to employees of Aer Lingus Limited, as consideration for services provided to Aer Lingus Limited.

During 2012, the Group also subscribed for an additional €80.0 million of share capital in Aer Lingus Limited.

37 Events after the reporting period

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

Mr. John Hartnett, Mr. Nigel Northridge and Mr. Nicolás Villen were appointed to the Board as independent, non-executive directors with effect from 1 January 2014. Mr. Frank O'Connor was appointed to the Board as a non-executive director with effect from 14 March 2014. Dr. Colin Hunt and Mr. Francis Hackett retired as directors with effect from 29 January 2014 and 7 February 2014, respectively.

In March 2014, a technical issue arose with respect to certain non-flight equipment held on operating lease. See Note 28 for details in respect of this matter.

On 25 March 2014, Andrew Macfarlane informed the Board that he will step down from his position as Chief Financial Officer and Executive Director. See page 38 for details in respect of this.

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

Shareholder Information (unaudited)

2014 financial calendar

Annual General Meeting	2 May 2014
2014 H1 period ends	30 June 2014
2014 H1 results	July 2014
2014 FY ends	31 December 2014

Share price data

	€
Share price movement during 2013	
- High	1.75
- Low	1.12
Share price at 31 December 2013	1.28
Market capitalisation at 31 December 2013	684.6m
Share price at 17 March 2014	1.66
Market capitalisation at 17 March 2014	886.5m

Shareholder analysis at 31 December 2013

Range of shares held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	**461,917,231**	**86.5%**	**66**	**0.9%**
100,001 – 250,000	**4,299,757**	**0.8%**	**26**	**0.4%**
10,001 – 100,000	**52,343,766**	**9.8%**	**2,526**	**36.0%**
Up to 10,000	**15,479,336**	**2.9%**	**4,393**	**62.7%**
Total	**534,040,090**	**100.0%**	**7,011**	**100.0%**

Shareholder analysis at 17 March 2014

Range of shares held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	**462,636,968**	**86.6%**	**66**	**1.0%**
100,001 – 250,000	**5,578,527**	**1.1%**	**35**	**0.5%**
10,001 – 100,000	**50,666,768**	**9.5%**	**2,453**	**35.6%**
Up to 10,000	**15,157,827**	**2.8%**	**4,326**	**62.9%**
Total	**534,040,090**	**100.0%**	**6,880**	**100.0%**

Share listing

Aer Lingus' shares are traded on the Irish Stock Exchange and the London Stock Exchange and are quoted on the official lists of both the Irish Stock Exchange and the UK Listing Authority.

ISIN: IE00B1CMPN86
ISE Xetra: Aer Lingus Group plc
MNEM – ISE: EIR1
MNEM – LSE: AERL
Bloomberg: AELGF
Reuters: AERL.I, AERL.L

Crest

Aer Lingus Group plc is a member of the CREST share settlement system. Shareholders may continue to hold paper share certificates or hold their shares in electronic form.

Electronic proxy voting and CREST voting

Shareholders may lodge a proxy form for the 2014 Annual General Meeting electronically. Shareholders who wish to submit proxies via the internet may do so by accessing the Registrars' website (see below). Instructions on using the service are sent to shareholders with their proxy form. Shareholders must register for this service on-line before the electronic proxy service can be used.

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.

Website

The Group's website, www.aerlingus.com, contains a separate Investor Relations section. This provides the full text of the Annual and Interim Reports and copies of presentations to analysts and investors. News releases are also made available in this section of the website immediately after release to the Stock Exchanges.

Investor relations

For investor enquiries please contact:

Declan Murphy
T: +353 1 886 2228
E: investor.relations@aerlingus.com

Jonathan Neilan
FTI Consulting
T: +353 1 663 3686
E: aerlingus@fticonsulting.com

Registered office and number

Number: 211168
Dublin Airport
Co. Dublin
Ireland

Registrars

For all queries on shareholdings please contact our registrars:

Capita Asset Services, Shareholder Solutions (Ireland),
2 Grand Canal Square
Dublin 2
Ireland
T: +353 1 553 0050
F: +353 1 224 0700 E: enquiries@capitaregistrars.ie

Our registrars also operate a "Shareholder Portal" through which you can enquire on and view your shareholding details. This can be accessed from their website at www.capitashareportal.com

Company officers and advisors

Directors

Colm Barrington (Chairman)
David Begg (Non-Executive Director)
Montie Brewer (Non-Executive Director)
Laurence Crowley (Non-Executive Director & Senior Independent Director)
John Hartnett (Non-Executive Director)
Andrew Macfarlane (Chief Financial Officer)
Christoph Mueller (Chief Executive Officer)
Nigel Northridge (Non-Executive Director)
Frank O'Connor (Non-Executive Director)
Nicola Shaw (Non-Executive Director)
William Slattery (Non-Executive Director)
Nicolás Villén (Non-Executive Director)

Company secretary

Meabh Gallagher

Independent auditors

PricewaterhouseCoopers
Chartered Accountants & Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

Legal advisors

Arthur Cox
Earlsfort Terrace
Dublin 2
Ireland

Sponsors

Investec Bank plc (Irish Branch)
The Harcourt Building
Harcourt Street
Dublin 2
Ireland

Operating and Financial Statistics

For the year ended 31 December 2013

	2013	2012	Change	2011	2010	2009
Long haul[1]						
Number of routes flown	6	6	-	6	8	9
Number of sectors flown (flights)	4,413	3,896	13.3%	3,809	3,805	4,884
Average sector length (in kilometres)	5,240	5,223	0.3%	5,254	5,258	5,472
Number of passengers (in thousands)	1,098	979	12.2%	897	908	1,077
Average fare (including airport charges/taxes) (in €)	347.52	350.82	(1.0%)	319.96	304.1	255.7
Utilisation (average block hours per aircraft per day)	12.1	12.3	(1.6%)	11.7	10.4	11.6
RPKs (in millions)	5,770	5,130	12.5%	4,720	4,766	5,854
ASK (in millions)	6,944	6,221	11.6%	6,084	6,081	8,008
Passenger load factor (flown RPKs per ASKs)	83.1%	82.5%	0.6 pts	77.6%	78.4%	73.1%
Average number of aircraft	6.9	6	15.0%	6.3	7.2	8.5
Scheduled cargo tonnes	20,200	20,869	(3.2%)	20,839	23,781	18,815

[1] excludes extended codeshare agreement with United Airlines

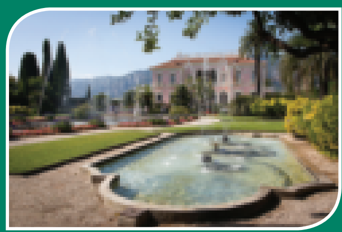
Short haul[1]

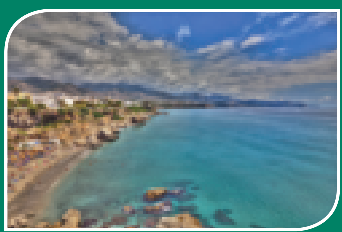
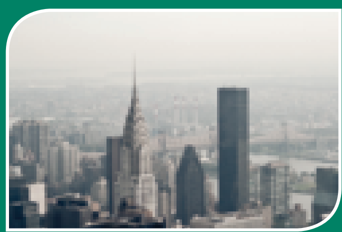
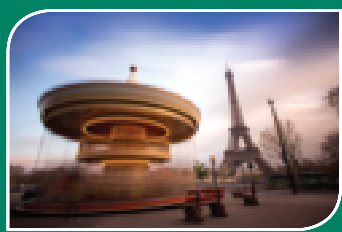
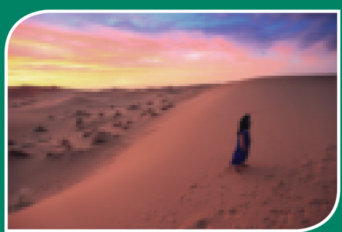
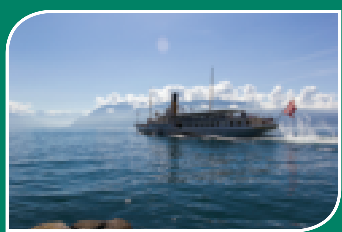
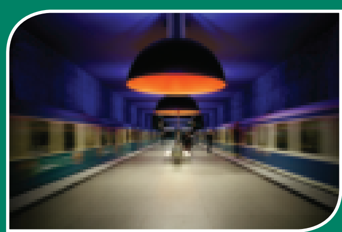
Number of routes flown	86	91	(5.5%)	89	98	107
Number of sectors flown (flights)	66,976	67,730	(1.1%)	66,649	64,306	69,661
Average sector length (in kilometres)	1,010	1,041	(3.0%)	1,053	1,046	1,048
Number of passengers (in thousands)	8,527	8,674	(1.7%)	8,616	8,438	9,305
Average fare (including airport charges/taxes) (in €)	92.53	94.11	(1.7%)	90.65	85.9	77.1
Utilisation (average block hours per aircraft per day)	9.5	9.5	-	9.5	9.3	10.2
RPKs (in millions)	9,037	9,393	(3.8%)	9,331	9,129	9,965
ASK (in millions)	11,954	12,464	(4.1%)	12,509	12,188	13,220
Passenger load factor (flown RPKs per ASKs)	75.6%	75.4%	0.2 pts	74.6%	74.9%	75.4%
Average number of aircraft	36.4	37.4	(2.7%)	36.8	36	35.3
Scheduled cargo tonnes	6,154	7,271	(15.4%)	6,817	8,843	6,718

[1] excludes Aer Lingus Regional Services operated by Aer Arann







In April 2013 we launched the “Wish You Were Here” photography competition in *Cara*, our in-flight magazine. Our aim was to showcase some of the great destinations on our network through the eyes of our customers. The response was wonderful. The entries we received were of such high quality that we felt it would be nice to include some of these beautiful images here.

Aer Lingus

www.aerlingus.com