Aer Lingus Group plc

ISE: EIL1 LSE: AERL

Q3 2013 operating profit up 4.4%

Dublin and London, 5 November 2013: Aer Lingus Group plc ("Aer Lingus" or "the Group") today issues an un-audited interim management statement for the period from 1 July 2013 to 30 September 2013, representing the third quarter of the Group's financial year.

Performance Highlights

- Q3 2013 operating profit of €94.9 million is 4.4% ahead of prior year despite challenging conditions
- Operating margin up 0.7 percentage points to 20.4%
- Strong Q3 long haul performance with fare revenue up 12.4% and a 0.4 percentage point increase in load factor. The market has absorbed our additional long haul aircraft
- Weaker short haul performance reflects adverse impact of exceptionally good weather conditions and competitive pricing environment in Q3 2013
- Despite a Q3 capacity increase of 2.9%, operating costs were effectively managed and increased by only 0.4%
- €78.4 million operating profit for the first nine months of 2013 is €8.1 million, or 9.4%, behind prior year
- Gross cash of €933.2 million reflects continued balance sheet strength
- Aer Lingus continues to expect that full year 2013 operating profit will be around €60 million

€m (un-audited)	**Quarter Ended 30 September [1]**			**Year-to-date 30 September [1]**		
	2013	**2012**	***Change [2]***	**2013**	**2012**	***Change [2]***
Revenue						
- Short haul fare revenue	259.9	275.9	*(5.8%)*	631.7	644.7	*(2.0%)*
- Long haul fare revenue	131.3	116.8	*12.4%*	297.8	260.9	*14.1%*
- Retail revenue	56.0	53.3	*5.1%*	143.2	137.8	*3.9%*
Total passenger revenue	447.2	446.0	*0.3%*	1,072.7	1,043.4	*2.8%*
Cargo revenue	9.9	10.2	*(2.9%)*	32.2	33.6	*(4.2%)*
Other revenue	9.2	4.6	*100.0%*	19.2	10.1	*90.1%*
Total revenue	**466.3**	**460.8**	***1.2%***	**1,124.1**	**1,087.1**	***3.4%***
Fuel costs	(103.7)	(106.9)	*3.0%*	(279.3)	(274.8)	*(1.6%)*
Staff costs	(72.1)	(69.9)	*(3.1%)*	(210.0)	(201.6)	*(4.2%)*
Other operating costs	(195.6)	(193.1)	*(1.3%)*	(556.4)	(524.2)	*(6.1%)*
Total operating costs	**(371.4)**	**(369.9)**	***(0.4%)***	**(1,045.7)**	**(1,000.6)**	***(4.5%)***
Operating profit before exceptional items	**94.9**	**90.9**	***4.4%***	**78.4**	**86.5**	***(9.4%)***
Operating Margin	*20.4%*	*19.7%*	*0.7 pts*	*7.0%*	*8.0%*	*(1.0 pts)*
EBITDAR [3]	**127.2**	**121.4**	***4.8%***	**174.1**	**177.8**	***(2.1%)***
Gross Cash [4]	**933.2**	**990.8**	***(5.8%)***			
Debt	**492.6**	**549.7**	***10.4%***			

[1] The above financial results have not been audited
[2] Sign convention: favourable / (adverse)
[3] Earnings Before Interest, Tax, Depreciation, Amortisation & aircraft operating lease rental
[4] Gross cash includes restricted cash of €22.1m (2012: €23.9m)

CEO Performance Review

Christoph Mueller, Aer Lingus' CEO said:
"Aer Lingus has delivered an operating profit of €94.9 million for Q3 2013 which is 4.4% ahead of prior year despite challenging conditions.

As stated in our trading update on 13 September, good weather conditions and strong price competition have hurt our short haul performance. However long haul revenue growth was impressive and the market has absorbed the extra capacity we added on the North Atlantic this summer.

We continued our tight cost management with operating costs increasing in the quarter by just 0.4% despite a 2.9% increase in capacity deployed and the costs of operating our wet lease business. However, I must again express my disappointment that the ongoing process to resolve pension issues continues to have a negative impact on our ability to deliver efficiencies and cost saving measures, particularly in respect of our recent voluntary severance programme.

We do not expect any improvement in the short haul environment for the rest of 2013 which remains characterised by heavily discounted fare offerings across Europe. The 2013 outlook on long haul remains positive with the exception of some weakness expected in November which was previously communicated. We maintain our current guidance for full year 2013 operating profit, before net exceptional items, to be around €60 million."

Conference Call Details

The Aer Lingus management team will host a conference call for institutional investors and analysts at 8.30am GMT on 5 November 2013. Dial in details are:

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Further Enquiries

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Statistics	Three months ended 30 September			Nine months ended 30 September		
	2013	2012	Change	**2013**	2012	Change
Passengers carried ('000) *						
Short haul	**2,568**	2,641	(2.8%)	**6,650**	6,718	(1.0%)
Long haul	**345**	298	15.8%	**833**	731	14.0%
Total	**2,913**	2,939	(0.9%)	**7,483**	7,449	0.5%
Revenue passenger kilometres (RPKs) (m) *						
Short haul	**2,891**	3,049	(5.2%)	**7,171**	7,419	(3.3%)
Long haul	**1,803**	1,548	16.5%	**4,377**	3,825	14.4%
Total	**4,694**	4,597	2.1%	**11,548**	11,244	2.7%
Available seat kilometres (ASKs) (m)						
Short haul	**3,524**	3,641	(3.2%)	**9,338**	9,731	(4.0%)
Long haul	**1,966**	1,696	15.9%	**5,219**	4,633	12.6%
Total	**5,490**	5,337	2.9%	**14,557**	14,364	1.3%
Passenger load factor (%) (flown RPKs per ASKs)*						
Short haul	**82.0%**	83.7%	(1.7 pts)	**76.8 %**	76.2%	0.6 pts
Long haul	**91.7%**	91.3%	0.4 pts	**83.9 %**	82.6%	1.3 pts
Total	**85.5 %**	86.1%	(0.6 pts)	**79.3 %**	78.3%	1.0 pts
Average fare per passenger (€)						
Short haul	**101.19**	104.49	(3.2%)	**95.00**	95.96	(1.0%)
Long haul	**380.91**	391.42	(2.7%)	**357.57**	357.02	0.2%
Total	**134.28**	133.59	0.5%	**124.22**	121.57	2.2%
Fare revenue per seat (€)						
Short haul	**80.43**	84.35	(4.6%)	**70.34**	70.68	(0.5%)
Long haul	**349.20**	357.44	(2.3%)	**299.93**	294.84	1.7%
Total	**108.45**	109.17	(0.7%)	**93.20**	90.52	3.0%
Retail revenue per passenger (€)	**19.24**	18.11	6.2%	**19.13**	18.50	3.4%
Aer Lingus Regional passengers carried ('000)	**343**	306	12.1%	**836**	752	11.2%

* Based on flown passengers and excluding Aer Lingus Regional Services operated by Aer Arann, the "wet lease" agreement with Virgin Atlantic Airways Limited ("contract flying business") and the Washington Dulles – Madrid extended code share service operated in partnership with United Airlines in 2012.

Note: The increase in long haul passengers, RPKs, and ASKs reflects the re-deployment of an A330 long haul aircraft to the mainline fleet in 2013 which was utilised on the Washington-Dulles to Madrid service in partnership with United Airlines in 2012.

Review – July to September 2013

Overview

Aer Lingus delivered a strong trading performance against a challenging trading environment in Q3 2013, recording an operating profit, before net exceptional items, of €94.9 million. This operating result is €4.0 million, or 4.4%, higher than the €90.9 million operating profit reported for Q3 2012.

In a trading update on 13 September 2013, we highlighted two main issues that negatively impacted our short haul revenue performance in Q3 2013:

- Exceptionally good weather conditions in Northern Europe which discouraged short haul leisure travel to the usual sun-belt destinations
- The increasingly competitive pricing environment that has particularly affected higher yielding, in-month bookings

The above factors resulted in a year-on-year decrease in our short haul revenue in Q3 2013. However, total revenue remains higher than prior year due to the continued strength of our long haul business, retail revenue initiatives and contract flying.

Although we had significantly higher year-on-year operational activity in the quarter (as a result of the additional A330 deployed on our long haul services and the contract flying business), operating costs increased by just 0.4%. This is due to a reduction in fuel costs, airport charges and overheads partly offset by increases in staff costs, depreciation and the effect of a reduction in gains on foreign exchange hedging.

Outlook

We do not expect any improvement in the short haul environment for the rest of 2013 which remains characterised by heavily discounted fare offerings across Europe. The 2013 outlook on long haul remains positive with the exception of some weakness expected in November which was previously communicated. We maintain our current guidance for full year 2013 operating profit, before net exceptional items, to be around €60 million.

Revenue

Total Q3 2013 revenue increased by 1.2% compared with prior year as growth in long haul, retail, and other revenue offset a weaker performance on short haul and cargo.

Short haul passenger revenue

Short haul passenger fare revenue decreased 5.8% to €259.9 million in Q3 2013 (Q3 2012: €275.9 million). Short haul passenger numbers decreased 2.8% and load factor dropped 1.7 percentage points to 82.0% while capacity deployed decreased 3.2%. Fare revenue per seat and fare revenue per passenger decreased 4.6% and 3.2% respectively. On a constant currency basis, we estimate that Q3 2013 short haul revenue would have been €3.6 million higher than reported.

Short haul passenger volumes were negatively affected by the good weather conditions in the quarter. These weather conditions impacted booking patterns as Irish customers deferred foreign leisure travel plans or elected to remain at home in the traditionally busy Summer holiday season. In addition, short haul yields have been adversely affected by discounted pricing across Europe.

Long haul passenger revenue

Long haul passenger fare revenue increased by 12.4% to €131.3 million in Q3 2013 (Q3 2012: €116.8 million). This strong performance was driven by a 15.8% increase in passenger numbers and a 0.4 percentage point increase in load factor to 91.7%. Fare revenue per seat decreased 2.3% and fare revenue per passenger decreased 2.7% as pricing adjusted to the 15.9% increase in capacity. On a constant currency basis, we estimate that long haul fare revenue for Q3 2013 would have been €2.2 million higher than reported.

Retail revenue

Retail revenue increased 5.1% to €56.0 million in Q3 2013 (Q3 2012: €53.3 million) and on a per passenger basis by 6.2% to €19.24 (Q3 2012: €18.11). This positive performance was driven by our “fare family” pricing product, online booking fees, seat selection and baggage fees. We are continuing to develop initiatives aimed at driving further discretionary spend.

Operating expenses

Operating expenses for Q3 2013 of €371.4 million are €1.5 million, or 0.4%, higher than prior year (Q3 2012: €369.9 million).

Q3 2013 fuel cost decreased by 3.0% in euro terms compared to Q3 2012 driven by favourable movements in the US$/EUR FX rate. The average fuel cost per tonne in Q3 2013 (excluding into-plane costs) was US$1,001 which was in line with prior year (Q3 2012: US$1,001) while fuel uplift (in metric tonnes) increased by 3.7%. The average US$ exchange rate however, weakened by 6.5% from US$1.24 to US$1.32 more than offsetting the impact of additional volumes uplifted. Details of our fuel hedging for the remainder of 2013 and for 2014 are outlined in the fuel and currency hedging section below.

Staff costs increased 3.1% year-on-year due mainly to additional headcount to support the contract flying business which commenced at the end of Q1 2013 and the additional A330 aircraft in our long haul fleet in the 2013 Summer season.

Other operating costs increased by 1.3% to €195.6 million (Q3 2012: €193.1 million). The increase can be attributed to higher depreciation costs and a reduction in gains on foreign exchange hedging, offset by a reduction in airport charges and overheads. Airport charges were lower year-on-year as favourable movements in FX rates (particularly an 8.9% weakening of the average EUR/GBP exchange rate from £0.79 to £0.86) offset price increases.

Review – Year to date September 2013

Overview

Aer Lingus’ year to date operating profit, before exceptional items, of €78.4 million is 9.4%, or €8.1 million, lower than the prior year comparative. At Q1 2013, we reported an operating loss of €45.5 million which was €9.4 million higher than the loss reported in Q1 2012. We made certain significant changes to our business in Q1 2013 such as introducing an additional (seventh) A330 aircraft into our mainline fleet and setting up operations to support our contract flying business. While we incurred commencement costs in respect of these changes in Q1, only limited income was generated up to Q2 2013. This, along with certain other one-off maintenance costs and weaker trading on UK routes, resulted in the larger year on year loss.

At Q2 2013, we recorded an operating profit of €29.1 million, which was €2.6 million lower than prior year. On a cumulative basis, this left us with a first half operating result €12.0 million adverse to prior year. At the time of our first half results announcement, we acknowledged that our short haul booking profile had somewhat eroded as a result of the good weather. However, the market environment at the time was such that we still expected to deliver an operating result in line with 2012.

In late August and early September 2013, we noted a considerable competitive change in the short haul market and we responded to this change with more aggressive pricing. Despite this, our booking profile for the remainder of 2013 indicated that it would not be possible to recover passenger volumes lost. This caused us to issue a trading update on 13 September 2013. The intensely competitive pricing environment continued to impact higher yielding in-month bookings in Q3 and this trend is continuing in Q4.

Revenue

Short haul passenger revenue

Year to date short haul passenger fare revenue decreased 2.0% to €631.7 million (2012: €644.7 million). On a constant currency basis, we estimate that year to date short haul revenue would have been €5.1 million higher than reported. Short haul passengers decreased by 1.0%. However, capacity deployed reduced by 4.0% resulting in a 0.6 percentage point increase in load factor to 76.8%. Fare revenue per seat declined 0.5% and fare revenue per passenger declined 1.0%, largely owing to the competitive pricing environment in Q3 2013.

Long haul passenger revenue
Long haul revenue for the year to September increased by 14.1% to €297.8 million (2012: €260.9 million). This increase was driven by a 14.0% increase in passenger numbers, a 1.7% increase in fare revenue per seat and a 0.2% increase in fare revenue per passenger. On a constant currency basis, we estimate that year-to-date long haul revenue would have been €1.6 million higher than reported. Long haul capacity increased by 12.6% as a result of additional frequencies on services to Boston and Chicago which was facilitated by the introduction of the seventh A330 long haul aircraft in Q1 2013. The market has absorbed the additional capacity and the long haul load factor was up 1.3 percentage points at 83.9% (2012: 82.6%).

Retail revenue
Retail revenue increased by 3.9% to €143.2 million (2012: €137.8 million) in absolute terms and by 3.4% on a per passenger basis to €19.13 (2012: €18.50). The increase in year to date retail revenue can be attributed to the positive performance of our "fare family" product, online booking fees, seat selection and pre-order meals.

Operating expenses
For the first nine months of 2013, total operating expenses have increased by 4.5% to €1,045.7 million (2012: €1,000.6 million).

Year to date fuel cost in euro terms increased 1.6% to €279.3 million (2012: €274.8 million). The average fuel cost per metric tonne (excluding into-plane fees) for the nine months to September 2013 was US$1,011 compared to US$989 for the same period in 2012. Fuel uplift (in metric tonnes) increased by 2.6% year on year due to the additional long haul services operated. The effect of unfavourable price and volume variances was offset by a weakening of the US$ exchange rate over the first nine months of 2013 (i.e. US$1.31 in 2013 YTD versus US$1.28 in 2012).

Staff costs increased 4.2% year on year driven by recruitment required to support increased business activity, namely contract flying and the additional (seventh) A330 aircraft.

Other operating costs increased by 6.1% to €556.4 million (2012: €524.2 million) again driven by the impact of the additional A330 aircraft and contract flying operations on cost categories including maintenance, overheads and depreciation. Airport charges have increased year-to-date as a result of price increases at some of our largest airports including London Heathrow. However, the full impact of such price increases has been partly offset by favourable FX movements, particularly in the EUR/GBP rate. We have also recorded lower gains on our foreign currency hedging in the first nine months of 2013 as we replaced maturing US$ hedging contracts (which were entered into at historically favourable rates) with new contracts closer to current market rates. This was previously noted in both our 2012 preliminary results and our 2013 first half results.

Fuel & Currency Hedging

Fuel Hedging
As at 30 September 2013, Aer Lingus had hedged 88% of its forecast Q4 2013 fuel requirements at an average of US$966 per metric tonne. 50% of total 2014 fuel requirements were hedged at US$956 per metric tonne. A summary of the quarterly fuel hedging position for the remainder of 2013 and for 2014 is:

Fuel	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Full yr 2014
Estimated burn ('000 metric tonnes)	103	90	140	146	116	492
% hedged	88%	72%	58%	44%	32%	50%
Avg. hedged price/MT (US$)	966	963	960	955	941	956

Currency Hedging
As at 30 September 2013, substantially all of the estimated US$ trading requirement for Q4 2013 was hedged at an average rate of US$1.31. In addition, 77% of our total estimated US$ trading requirement for 2014 was hedged at a rate of US$1.33. Aer Lingus is structurally short

US$ in any financial year as the level of US$ revenue is not sufficient to cover significant US$ denominated costs such as fuel, aircraft hire and certain airport charges and maintenance costs.

At 30th September, we had sold forward 80% of our expected GBP surplus for Q4 2013 at a rate of €1 = £0.85 and 43% of our expected 2014 GBP surplus at a rate of £0.83.

Financial Position

Gross cash at 30 September 2013 was €933.2 million, which is €57.6 million lower than the equivalent figure at 30 September 2012. The decrease can be largely attributed to scheduled finance lease repayments in the 12 months to 30 September 2013 as well as our dividend payment, capital expenditure, working capital changes and adverse movements in FX rates. In 2013, we agreed with some significant suppliers to trade earlier payment in return for discounts.

Gross debt decreased by €57.1 million to €492.6 million as at 30 September 2013 compared to 30 September 2012. In the 12 months to 30 September 2013, we have made €46.7 million of finance lease repayments and have benefitted from €15.5 million of a positive FX variance from the weakening of the US$ against the EUR year-on-year. This was offset by accrued interest on finance lease debt of €5.1 million.

Pension and Related Matters

Aer Lingus Group plc and Aer Lingus Limited issued an announcement on 10 October 2013 regarding the status of negotiations with respect to the Irish Airlines (General Employees) Superannuation Scheme ("IASS")

In April 2013, the Group announced a Voluntary Severance Programme (the "VSP") targeting a headcount reduction of 100 staff in 2013. At the time of the announcement, we had anticipated that this headcount reduction would be achieved in 2013 with staff cost savings recognised in Q3 and Q4 and the full year effect of savings secured in 2014. The number of staff who expressed an interest in the programme was in excess of the original 100 target. However, many chose not to commit to the VSP due to delays in achieving resolution of the IASS situation. This had the effect of slowing the process of securing staff exits. As at 30 September 2013, 48 staff had left Aer Lingus under the VS programme. An additional 53 staff have now committed to leave by the end of the year with a further 4 staff committed to leave in 2014. On this basis, savings targeted from the programme in 2013 will be less than originally envisaged while full year savings should be delivered in 2014.

UK Competition Commission Investigation

On 28 August 2013, the UK Competition Commission (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 in Aer Lingus 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
- 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 Court of Appeal of the prohibition by the European Commission of its third takeover offer for Aer Lingus in February 2013.

Ryanair have appealed the findings of the UK CC's final report to the Competition Appeals Tribunal. This appeal is scheduled to be heard between 12 and 14 February 2014.