

# Aer Lingus Group plc

ISE: EIL1

LSE: AERL

## Q1 2014 Interim Management Statement

Dublin and London, 1 May 2014: Aer Lingus Group plc (“Aer Lingus”, the “Group”) today issues an un-audited interim management statement for the period from 1 January 2014 to 31 March 2014, representing the first quarter of the Group’s 2014 financial year.

### Highlights

- Q1 2014 operating loss of €48.5 million was €3.0 million or 6.6% higher than Q1 2013. This result reflects the later timing of Easter in 2014 and the negative effect of threatened industrial action on booking volumes in March 2014. This threatened action resulted in the cancellation of flights in advance of St. Patrick’s weekend as well as the forced re-booking and re-accommodation of a significant number of passengers
- Q1 2014 revenues broadly flat year-on-year; lower Easter related leisure traffic compensated by the positive impact of contract flying activities which are now in their second year of operation
- Retail revenue was 6.0% higher year on year with retail spend per passenger up 10.1%
- CORE is on plan: the relevant work streams have been identified; business cases have been commissioned and a programme office has been established
- Business remains financially strong with gross cash of €1.02 billion as at 31 March 2014 (€1.01 billion) and net cash of €553.7 million (2013: €484.4 million)
- New long haul services to San Francisco and Toronto launched successfully in April 2014. Additional Shannon based services to Boston and New York also launched in February and March 2014. Three Boeing 757 aircraft are now operational and are expected to drive an increase in full year 2014 long haul capacity of greater than 20%. Bookings on existing routes, on which these additional aircraft have been deployed, are ahead of prior year
- Short haul business continues to make positive returns even though short haul markets remain very competitive. Forward trends are positive, especially in long haul. We continue to expect that the operating result for 2014 will be broadly in line with 2013

€m (un-audited)	Quarter ended 31 March		
	2014	2013	Change <sup>1</sup>
<b>Revenue</b>			
- Short haul fare revenue	138.8	149.5	(7.2%)
- Long haul fare revenue	59.1	60.3	(2.0%)
- Retail revenue	38.7	36.5	6.0%
Total passenger revenue	236.6	246.3	(3.9%)
Cargo revenue	10.6	11.5	(7.8%)
Other revenue	12.2	1.9	542.1%
<b>Total revenue</b>	<b>259.4</b>	<b>259.7</b>	<b>(0.1%)</b>
Fuel costs	66.8	72.3	7.6%
Staff costs	68.1	64.7	(5.3%)
Airport charges	59.1	59.1	-
Other operating costs	113.9	109.1	(4.4%)
<b>Total operating costs</b>	<b>307.9</b>	<b>305.2</b>	<b>(0.9%)</b>
<b>Operating loss before net exceptional items</b>	<b>(48.5)</b>	<b>(45.5)</b>	<b>(6.6%)</b>
<b>EBITDAR <sup>2</sup></b>	<b>(14.1)</b>	<b>(13.7)</b>	<b>(2.9%)</b>
<b>Gross cash <sup>3</sup></b>	<b>1,017.9</b>	<b>1,013.4</b>	<b>0.4%</b>
<b>Debt</b>	<b>464.2</b>	<b>529.0</b>	<b>12.3%</b>

<sup>1</sup> Sign convention: favourable / (adverse)

<sup>2</sup> Pre-exceptional earnings before Interest, Tax, Depreciation, Amortisation and Aircraft operating lease rental

<sup>3</sup> Gross cash includes restricted cash of €19.5 million (2013: €15.5 million)

## CEO performance review

### **Christoph Mueller, Aer Lingus' CEO said:**

*"As previously guided, our first quarter passenger revenue was slightly weaker than 2013 reflecting the timing of Easter in 2014. Our operating result is €3 million lower than last year primarily due to the adverse effect of threatened industrial action by the SIPTU trade union in advance of St. Patrick's weekend in March 2014. This threatened action, which was withdrawn only at a very late stage, resulted in numerous forced flight cancellations and aircraft hire-ins. This had a directly negative impact on our Q1 2014 operating result.*

*The need to maintain our differentiation and tightly manage our cost base is very clear to us. The timely and effective execution of our recently announced CORE programme is imperative if Aer Lingus is to continue to grow profitably for the medium term.*

*I am pleased to report that CORE remains on plan. The relevant workstreams have been identified, the required business cases have been commissioned and a programme office has been established. We have allocated key responsibilities to selected senior managers to lead projects to define activities and processes which are core to the airline; to establish profit centre structures in support areas (with appropriate changes to related management and financial reporting) and to coordinate and consolidate all CORE workstreams on a centralised basis. We will communicate more specific details of the CORE programme to employees and unions in May 2014.*

*Our short haul operation remains an attractive and profitable business despite the continuation of intense price competition in European markets. Forward trends are positive, especially in long haul. We continue to expect that our operating result for 2014 will be broadly in line with 2013."*

## Conference call details

The Aer Lingus management team will host a conference call for institutional investors and analysts at 09.00am GMT on 1 May 2014. Dial in details are:

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## Further enquiries

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## Aer Lingus operating metrics (un-audited)

	Three months ended 31 March		
	2014	2013	Change
<b>Passengers carried ('000s) *</b>			
Short haul	1,653	1,724	(4.1%)
Long haul	180	181	(0.5%)
<b>Total</b>	<b>1,833</b>	<b>1,905</b>	<b>(3.8%)</b>
<b>Revenue Passenger Kilometres (RPKs) (million) *</b>			
Short haul	1,604	1,677	(4.4%)
Long haul	955	963	(0.8%)
<b>Total</b>	<b>2,559</b>	<b>2,640</b>	<b>(3.1%)</b>
<b>Available Seat Kilometres (ASKs) (million) *</b>			
Short haul	2,330	2,389	(2.5%)
Long haul	1,337	1,306	2.4%
<b>Total</b>	<b>3,667</b>	<b>3,695</b>	<b>(0.8%)</b>
<b>Passenger load factor (%) (flown RPKs per ASKs)*</b>			
Short haul	68.8%	70.2%	(1.4 pts)
Long haul	71.5%	73.7%	(2.2 pts)
<b>Total</b>	<b>69.8%</b>	<b>71.4%</b>	<b>(1.6 pts)</b>
<b>Average fare yield per passenger (€) *</b>			
Short haul	84.00	86.72	(3.1%)
Long haul	327.47	333.15	(1.7%)
<b>Total average fare yield per passenger (€) *</b>	<b>107.97</b>	<b>110.13</b>	<b>(2.0%)</b>
<b>Revenue per seat (€) *</b>			
Short haul	56.36	58.48	(3.6%)
Long haul	233.72	246.08	(5.0%)
<b>Total revenue per seat</b>	<b>72.87</b>	<b>74.88</b>	<b>(2.7%)</b>
Retail revenue per passenger	21.09	19.16	10.1%

### Aer Lingus Regional

Aer Lingus Regional passengers carried ('000s)

256	224	14.3%
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**Total Aer Lingus passengers including Aer Lingus Regional ('000s)**

<b>2,089</b>	<b>2,129</b>	<b>(1.9%)</b>
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\* Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services

### First quarter 2014 overview

Aer Lingus reported an operating loss of €48.5 million, which is €3.0 million (or 6.6%) higher than in Q1 2013. The Group is seasonally loss making in the first quarter of the year and this result is in line with our previous guidance (issued at the time of our preliminary results in 24 February 2014). This result reflects a number of factors:

- The prior year comparative benefitted from the earlier timing of Easter in 2013 and this is reflected in lower year-on-year passenger revenues and volumes in Q1 2014 relative to Q1 2013. We estimate that this timing effect had an €8 million to €10 million adverse impact on total revenue performance in the quarter.
- The Q1 2014 operating result was also impacted by threatened industrial action by the SIPTU trade union just before St. Patrick's weekend in March 2014. This threatened action was withdrawn at a very late stage, by which point Aer Lingus had already cancelled 29 flights and had hired 16 additional aircraft as a contingency planning measure in order to protect our schedule and facilitate our passengers. We estimate that the threatened industrial action had an adverse impact of at least €3 million on revenue performance (due to lower booking volumes) in the quarter.
- Notwithstanding this, revenue performance in the quarter was stable due to strong retail revenue growth and the positive contribution of our contract flying activities, which are now in their second year of operation.
- Q1 2014 short haul capacity decreased by 2.5% compared to 2013. This reduction reflects planned adjustments to the deployment of short haul capacity to enable us to protect margins in the context of continuing intense price competition in key short haul markets.

### Outlook

Our short haul operation remains an attractive and profitable business despite the continuation of intense price competition in European markets. Forward trends are positive, especially in long haul. We continue to expect that our operating result for 2014 will be broadly in line with 2013.

### Revenue

Total Q1 2014 revenues remained broadly stable compared to Q1 2013. Total capacity deployment was down 0.8%, primarily due to reduced short haul flying in the quarter. As noted above, leisure passenger revenues were impacted by the later timing of Easter in 2014 relative to 2013.

#### *Short haul passenger fare revenues*

Total short haul passenger fare revenue of €138.8 million in Q1 2014 was 7.2% lower than Q1 2013. Short haul revenue per seat was 3.6% below prior year while short haul revenue per passenger was 3.1% below Q1 2013. Load factor on short haul mainline services decreased by 1.4 percentage points to 68.8%.

Conditions in several of our short haul markets remained challenging in Q1 2014 with the intense price competition trends, which commenced in Q3 2013, continuing into 2014. Yields in certain markets were under particular pressure in the quarter and we carefully adjusted capacity to protect margins.

Despite short haul revenue performance in Q1 2014, current forward booking trends on short haul routes indicate that revenues for the majority of our short haul route network should be broadly in line with, or marginally ahead of, 2013 levels.

#### *Long haul passenger revenues*

Strong long haul performance was a key feature of our business in 2013. We remain satisfied with long haul revenue performance in Q1 2014 despite the lower level of leisure travellers in the quarter compared to prior year.

Long haul capacity in the quarter increased by 2.4%, primarily due to the damp lease of three Boeing 757 aircraft. Despite this additional capacity and deferral of Easter leisure long haul travellers into Q2 2014, long haul passenger revenues decreased by just 2.0% compared to Q1 2013. Long haul passenger volumes were just 0.5% below prior year. Fare yield per long haul passenger decreased by 1.7% while revenue per seat decreased by 5.0%, reflecting, in part, the effect of the weaker US\$ in Q1 2014 compared to Q1 2013.

Aer Lingus launched its inaugural Dublin to San Francisco direct service on 2 April 2014 followed by the Group's first direct service between Dublin and Toronto on 14 April 2014. Based on current visibility, the forward booking profile for both these new routes is in line with expectations.

Forward volume and yield trends for the remainder of Aer Lingus' long haul network are satisfactory and are ahead of prior year in overall network terms.

#### *Retail revenue*

Retail revenue performed strongly in Q1 2014. Total retail revenue was 6.0% ahead of prior year. Retail revenue per passenger increased by 10.1% to €21.09 (Q1 2013: €19.16). Online booking fees and commission based revenue streams were up compared to Q1 2013. Average inflight retail spend per passenger increased by 1.3% reflecting the positive impact of our refreshed inflight food offering which launched in late 2013.

#### *Contract flying*

Aer Lingus' contract flying activities (reported in "Other revenue" above) performed positively in the quarter. Both the Virgin and Novair wet leases contributed positively to Aer Lingus' operating result in Q1 2014. In addition, €2.1 million of start up costs incurred in relation to the commencement of the Virgin operation in Q1 2013 did not recur in Q1 2014.

#### **Operating expenses**

Operating expenses for Q1 2014 of €307.9 million were €2.7 million (or 0.9%) higher than in prior year (Q1 2013: €305.2 million).

Q1 2014 fuel cost decreased by 7.6% compared to Q1 2013. This reduction was driven by several factors including favourable movements in the US\$ / euro exchange rate; lower average fuel cost per tonne as well as a lower level of mainline flying activity in the quarter compared to prior year.

The average fuel cost per tonne in Q1 2014 (excluding into-plane costs) was US\$994 which was 3.0% lower than prior year (Q1 2013: US\$1,025) while fuel uplift (in metric tonnes) decreased by 1.7%. The average US\$ exchange rate weakened by 3.0% from US\$1.33 to US\$1.37. Details of our fuel hedging for the remainder of 2014 and for 2015 are outlined in the fuel and currency hedging section below.

Staff costs increased 5.3% year-on-year due mainly to additional headcount associated with increased transatlantic flying which started in Q1 2014 as well as the impact in the quarter of the staff salary increment which was paid with effect from September 2013. Payment of this increment is in line with the final Labour Court recommendation (which issued in May 2013) relating to the Irish Airlines (General Employees) Superannuation Scheme (the "IASS").

Airport charges of €59.1 million were flat year-on-year as lower flying activity was offset by higher charges imposed at some of the airports to which we fly.

Other operating costs increased by 4.4% to €113.9 million (Q1 2013: €109.1 million). The increase is partly attributable to higher overheads and a loss on foreign exchange hedging (compared to a foreign exchange gain in Q1 2013). Aircraft hire charges also increased in the quarter due to the additional aircraft which Aer Lingus was forced to hire in order to protect our schedule in the context of threatened industrial action by the SIPTU trade union before St. Patrick's weekend as well as hire charges associated with three Boeing 757 aircraft and a full three months of Virgin "Little Red" activity in Q1 2014 (this operation commenced at the very end of Q1 2013).

## Fuel and currency hedging

### Fuel Hedging

As at 31 March 2014, Aer Lingus had hedged 70% of its forecast 2014 fuel requirements at an average of US\$956 per metric tonne. 16% of total 2015 fuel requirements were hedged at US\$937 per metric tonne.

A summary of the quarterly fuel hedging position for the remainder of 2014 and for 2015 is:

Fuel	Q2 2014	Q3 2014	Q4 2014	Total (Q2-Q4) 2014	Full yr 2015
Estimated burn ('000 MT)	141	147	116	404	501
% hedged	83%	69%	55%	70%	16%
Avg. hedged price/MT (US\$)	959	955	944	954	937

### Currency hedging

As at 31 March 2014, 91% of the estimated US\$ trading requirement for the remainder of 2014 was hedged at an average rate of US\$1.35. In addition, 44% of our total estimated US\$ trading requirement for 2015 was hedged at a rate of US\$1.34. 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 31 March 2014, we had sold forward 88% of our expected GBP surplus for 2014 at a rate of €1 = £0.83 and 46% of our expected 2015 GBP surplus at a rate of £0.84.

## Financial position

Gross cash at 31 March 2014 was €1,017.9 million, which is €4.5 million higher than the equivalent figure at 31 March 2013. This gross cash balance represents a €120.5 million increase in the three months since December 2013.

This increase in cash was primarily attributable to €182.0 million of seasonal working capital inflows mainly associated with ticket sales in advance of the peak second and third quarter.

Gross debt decreased by €64.8 million to €464.2 million as at 31 March 2014 compared to 31 March 2013. In the 12 months to 31 March 2014, we have made €44 million of finance lease repayments and have benefitted from €25.6 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 €4.8 million.

## Cost Optimisation and Revenue Excellence ("CORE") programme

On 24 February 2014, Aer Lingus announced the start of the two year CORE programme. This programme has three main elements:

- (i) Cost and business optimisation (with a total cost reduction target of €30 million);
- (ii) Revenue excellence; and
- (iii) Further improvements in staff engagement, training, flexibility and productivity.

CORE remains on plan. The relevant work streams have been identified, the required business cases have been commissioned and a programme office has been established. We have allocated key responsibilities to selected senior managers to lead projects to define activities and processes which are core to the airline; to establish profit centre structures in support areas (with appropriate changes to related management and financial reporting) and to coordinate and consolidate all CORE workstreams on a centralised basis. We will communicate more specific details of the CORE programme to employees and unions in May 2014.

We intend to provide a full update on progress on the CORE programme at the time of the release of our H1 2014 results in late July 2014.

## Pensions

On 3 March 2014, an Expert Panel was formed under the joint sponsorship of two Irish Government departments, the Irish Business and Employers' Confederation and the Irish Congress of Trade Unions. The purpose of this Expert Panel is to engage in discussions with relevant stakeholders regarding the IASS and carry out an urgent investigation as to how a final resolution of the industrial relations issues relating to the IASS can be secured.

Aer Lingus continues to engage constructively with the Expert Panel in a timely manner. We acknowledge the work undertaken by the Expert Panel to date and appreciate the time they have taken to understand the complex issues which must be addressed.

Aer Lingus continues to believe that the interim and final Labour Court recommendations relating to IASS funding issues, which issued in January and May 2013, respectively, remain the only basis upon which a fair and balanced outcome can be achieved to address that portion of the IASS funding shortfall which is attributable to current employees of Aer Lingus.

The Expert Panel intends to report to its sponsors in May 2014. Aer Lingus will continue to engage constructively on a voluntary and non-binding basis in order to facilitate the full and speedy implementation of the Labour Court Recommendations.