

# Aer Lingus Group plc

ISE: EIL1

LSE: AERL

## Interim Management Statement

**Dublin and London, 3 November 2011:** Aer Lingus Group plc (“Aer Lingus” or “the Group”) today issues an un-audited interim management statement for the period from 1 July 2011 to 30 September 2011, representing the third quarter of the Group’s financial year.

### Performance Highlights

- Strong Q3 2011 with revenues & operating profit both ahead of prior year.
- Q3 2011 operating profit of €94.6 million up 19.4% on prior year.
- Positive Q3 yield performance with overall yield per passenger up 4.0%.
- Passenger numbers increased by 2.1% in Q3 2011; year to date passenger volumes up 0.2% compared to prior year.
- Retail revenue per passenger increased by 6.1% in the third quarter.
- Aer Lingus expects to report a full year 2011 operating profit, before exceptional items, at the upper end of the range of current market expectations.

€m (un-audited)	Quarter Ended 30 September <sup>1</sup>			Year-to-date 30 September <sup>1</sup>		
	2011	2010	Change <sup>2</sup>	2011	2010	Change <sup>2</sup>
<b>Revenue</b>						
- Short haul fare revenue	268.3	249.3	7.6%	615.8	570.3	8.0%
- Long haul fare revenue	100.4	97.9	2.6%	219.5	211.5	3.8%
- Retail revenue	54.0	49.9	8.2%	131.5	130.6	0.7%
<b>Total passenger revenue</b>	<b>422.7</b>	<b>397.1</b>	<b>6.4%</b>	<b>966.8</b>	<b>912.4</b>	<b>6.0%</b>
Cargo revenue	10.1	10.4	(2.9%)	32.1	29.6	8.4%
Other revenue	3.0	4.2	(28.6%)	6.0	7.7	(22.1%)
<b>Total revenue</b>	<b>435.8</b>	<b>411.7</b>	<b>5.9%</b>	<b>1,004.9</b>	<b>949.7</b>	<b>5.8%</b>
<b>Fuel costs</b>	<b>83.7</b>	<b>77.0</b>	<b>8.7%</b>	<b>213.3</b>	<b>209.2</b>	<b>2.0%</b>
<b>Staff costs</b>	<b>68.2</b>	<b>61.9</b>	<b>10.2%</b>	<b>195.9</b>	<b>197.6</b>	<b>(0.9%)</b>
<b>Other operating costs</b>	<b>189.3</b>	<b>193.6</b>	<b>(2.2%)</b>	<b>528.9</b>	<b>482.7</b>	<b>9.6%</b>
<b>Total operating costs</b>	<b>341.2</b>	<b>332.5</b>	<b>2.6%</b>	<b>938.1</b>	<b>889.5</b>	<b>5.5%</b>
<b>Operating profit/(loss) before exceptional items</b>	<b>94.6</b>	<b>79.2</b>	<b>19.4%</b>	<b>66.8</b>	<b>60.2</b>	<b>11.0%</b>
Exceptional items	(0.1)	3.6	NM <sup>3</sup>	14.8	(1.4)	NM <sup>3</sup>
<b>Operating profit/(loss) after exceptional items</b>	<b>94.5</b>	<b>82.8</b>	<b>14.1%</b>	<b>81.6</b>	<b>58.8</b>	<b>38.8%</b>
<b>EBITDAR <sup>4</sup></b>	<b>124.8</b>	<b>120.5</b>	<b>3.6%</b>	<b>159.6</b>	<b>166.9</b>	<b>(4.4%)</b>
<b>Gross Cash <sup>5</sup></b>	<b>927.3</b>	<b>951.9</b>	<b>(2.6%)</b>			
<b>Debt</b>	<b>572.7</b>	<b>530.8</b>	<b>7.9%</b>			

<sup>1</sup> The above financial results have not been audited

<sup>2</sup> Sign convention: increase / (decrease)

<sup>3</sup> Not meaningful

<sup>4</sup> Earnings Before Interest, Tax, Depreciation, Amortisation & aircraft operating lease rental

<sup>5</sup> Gross cash includes restricted cash of €28.8m (2010: €49.0m)

## CEO Performance Review

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

*"I am pleased to report that Aer Lingus had a strong third quarter, generating an operating profit, before exceptional items, of €94.6 million. This result is ahead of Q3 2010 and follows on from a solid Q2 2011 performance. Aer Lingus has performed positively over the key Summer months of 2011.*

*These results were achieved against the backdrop of difficult trading conditions. Demand in our primary markets continues to be impacted by consumer concerns about the future and the ongoing eurozone debt crisis. We are also affected by high airport charges and are now exposed to higher fuel prices than earlier this year.*

*Despite these challenges, we are satisfied with Aer Lingus' operating profit for the first nine months of 2011. Based on this result, and current trading, the Group now expects to report a full year 2011 operating result, before exceptional items, at the upper end of the current range of market expectations."*

## Conference Call Details

The Aer Lingus management team will host a conference call for institutional investors and analysts at 8.30am GMT on 3 November 2011. Dial in details are:

Ireland	+353 1 436 4265
United Kingdom	+44 208 817 9301
Confirmation Code	5924211

## Further Enquiries

### **Investors & Analysts**

Declan Murphy	Aer Lingus Investor Relations	Tel:	+353 1 886 2228
Jonathan Neilan	FTI Consulting	Tel:	+353 1 663 3686

### **Irish Media**

Declan Kearney	Aer Lingus Communications	Tel:	+353 1 886 3662
Sheila Gahan	Wilson Hartnell Public Relations	Tel:	+353 87 234 2409

[sheila.gahan@ogilvy.com](mailto:sheila.gahan@ogilvy.com)

### **International Media**

Matthew Fletcher	Powerscourt	Tel:	+44 (0) 207 3240494
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[matthew.fletcher@powerscourt-group.com](mailto:matthew.fletcher@powerscourt-group.com)

## Review – July to September 2011

### **Introduction**

As reported in Aer Lingus' trading update of 28 September, the Group traded well in Q3 2011. The quarterly operating profit of €94.6 million, before exceptional items, represents a 19.4% increase on Q3 2010.

This strong performance is directly attributable to the commercial, operational and cost reduction actions taken by the Group since late 2009. These actions have underpinned a strong quarterly financial performance despite the impact of higher airport charges and fuel costs, continuing weakness on certain leisure routes from Ireland and increased competition in the North Atlantic long haul market.

There are no developments to report in relation to pension risks and uncertainties.

## Revenue

Total Q3 revenue increased by 5.9% compared to prior year. Total capacity deployment, as measured through Available Seat Kilometres ("ASKs"), increased by only 1.2%.

### *Short haul passenger revenues*

Short haul passenger fare revenues increased by 7.6% to €268.3 million in Q3 2011. Time sensitive routes such as London, France, Benelux and Germany continued to perform strongly while some leisure routes remained weak.

Average short haul yield per passenger increased by 5.2% in the quarter while passenger volumes increased by 2.3%. Total flown passengers, including Aer Lingus Regional operations, increased by 4.7%. Load factor increased by 1.1 percentage points partly due to a recovery in late Summer traffic on certain leisure routes (e.g. Portugal) which had underperformed during the first six months of 2011.

### *Long haul passenger revenues*

Long haul passenger fare revenues increased by 2.6% to €100.4 million in Q3 2011. This increase comprises a 3.0% increase in average yield per long haul passenger combined with a 1.0 percentage point increase in load factor to 89.0% against the backdrop of a 1.3% reduction in capacity.

Business class revenues continue to perform well and contributed approximately 18% of total long haul revenues during the quarter compared to approximately 16% in Q3 2010.

### *Retail revenue*

Aer Lingus recorded a strong retail revenue performance in Q3 2011. Retail revenue per passenger was €18.26 in Q3 2011 compared to €17.21 in Q3 2010. This 6.1% year-on-year increase represents a considerable improvement over the 3.0% decline experienced in the first half of 2011 and is driven by growth in online booking fees, seat selection and baggage charges.

As outlined in our recent investor day, the Group will continue to target increased retail revenue growth as part of its Greenfield programme through initiatives such as fare bundling, onboard connectivity on long haul and a re-modelled "Sky Café" offering.

## Operating expenses

Overall, the increase in total operating expenses was held to only 2.6% compared to Q3 2010 year despite significant increases in fuel costs and airport charges in the quarter. This increase also includes programme costs related to IT and business improvement projects of approximately €2.9 million. As Aer Lingus is structurally short US\$, certain costs (e.g. fuel, aircraft hire and maintenance charges) were positively impacted by the weakening Q3 US\$ exchange rate from US\$1.29 in 2010 to US\$1.41 in 2011.

Q3 2011 fuel costs increased by 8.7% in euro terms compared to 2010. While fuel consumption in the quarter remained flat compared to prior year, the average fuel cost per metric tonne for Q3 2011 (excluding intoplane costs) increased to US\$900 compared to US\$723 in Q3 2010 partly offset by the benefit of a stronger euro. We are experiencing increasing fuel costs month-to-month as the business loses the benefit of fuel hedges put in place before Spring 2011.

We indicated at the time of the Group's 2010 preliminary results that 2010 staff costs had benefited from €4m of provision releases and a further €10m of once-off savings (due to ash disruption and unpaid leave) and that these factors would not recur in 2011. The comparison of staff costs in Q3 is distorted by these non-recurring factors. We anticipated that, subject to operational changes in the business, 2011 full year staff costs would be at the same level as 2010. Year to date 2011 staff costs are €195.9 million compared with €197.6 million for the same period in 2010, which is in line with our guidance.

The 2.2% decrease in other operating costs compared to Q3 2010 includes a reduction of 28.3% in depreciation (reflecting fleet changes) and a 23.8% decrease in aircraft lease costs, respectively. These reductions were partly offset by an 18.6% increase in maintenance costs (reflecting engine contract adjustments following re-phasing of the aircraft order book earlier in 2011) and a 7.0% increase in airport charges, compared to Q3 2010.

## Review – Year to date September 2011

### Introduction

Aer Lingus' year to date operating profit, before exceptional items, of €66.8 million represents an 11.0% improvement over prior year and reflects strong trading performances for Q2 and Q3 2011. This result was achieved despite a difficult start to 2011 when trading was affected by the IMPACT cabin crew disruption in January and February, as well as difficult demand conditions, particularly on leisure routes from Ireland.

### Revenue

#### *Short haul passenger revenues*

Year to date short haul passenger fare revenues increased by 8.0% to €15.8 million. The average short haul yield per passenger increased by 7.4%. Passenger volumes increased by 0.5%, representing a stabilisation of short haul volumes following a two year period of planned capacity adjustments in addition to a number of operational disruptions. Total flown passengers, including Aer Lingus Regional operations, increased by 4.9%. Short haul load factor for the first nine months of 2011 decreased slightly by 0.7 percentage points.

Time sensitive routes performed well over the first nine months of 2011. However, leisure routes from Ireland were impacted by difficult demand conditions in this period.

#### *Long haul passenger revenues*

Long haul revenue for the year to September increased by 3.8% to €219.5 million. Long haul capacity deployment for the first nine months of 2011 remained flat compared to last year. Long haul load factor was down marginally by 1.5 percentage points.

#### *Retail revenue*

Retail revenue per passenger increased by 0.5% over the first nine months of 2011. This represents a recovery following to the first six months of 2011 when retail revenue per passenger declined by 3.0% compared to 2010.

### Operating expenses

For the first nine months of 2011, total operating expenses increased by 5.5% compared to 2010. This movement includes increased airport and enroute charges which were €18.5 million higher than prior year and also reflects programme costs related to IT and other business improvement projects amounting to approximately €12.4 million over the first nine months of the year.

Year to date fuel costs in euro terms increased by 2.0% compared to prior year. This is due to higher unit fuel costs partially offset by the combined effect of a 0.4% reduction in fuel consumption and weaker US\$ exchange rate over the first nine months of 2011 compared to prior year, i.e. US\$1.32 vs. US\$ 1.41. The average fuel cost per metric tonne (excluding intoplane costs) for the nine months to September 2011 was US\$846 compared to US\$773 for the same period in 2010.

## Fuel & Currency Hedging

As at 30 September 2011, Aer Lingus had hedged 84% of its forecast Q4 2011 fuel requirements at an average of US\$921 per metric tonne. 47% of total 2012 fuel requirements were hedged at US\$975 per metric tonne.

A summary of the quarterly fuel hedging position for the remainder of 2011 and for 2012 is:

Fuel	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Full yr 2012
Estimated burn (MT)	102,102	87,854	123,571	125,810	105,672	442,906
% hedged	84%	70%	55%	40%	25%	47%
Avg. hedged price/MT (US\$)	921	942	963	1,002	1,033	975

It should be noted that our average fuel price for Q4 2010 was US\$729 per metric tonne and we therefore expect our Q4 2011 fuel bill to be substantially higher than for the same period in 2010.

As at 30 September 2011, 54% of the estimated US\$ trading requirement for Q4 2011 was hedged at an average rate of US\$1.44. For 2012, 62% of the Group's estimated US\$ trading requirement is hedged at an average rate of US\$1.43.

### Greenfield Cost Reduction Programme Progress

At the end of September 2011, the Group had achieved total Greenfield cost savings with an annual value €79.8 million. As previously reported, the increase since the end of 2010 has been driven primarily by non-staff savings.

€m	Annual value of savings achieved at end of 2010	Annual value of savings achieved in year to date Sept 2011	Total savings as at September 2011
Staff	50.0	2.6	52.6
Non-staff	3.9	23.3	27.2
<b>Total</b>	<b>53.9</b>	<b>25.9</b>	<b>79.8</b>

As outlined in the Group's investor day in September 2011, Aer Lingus expects to achieve Greenfield savings with an annual value of €80.5 million by the end of 2011 from initiatives that are currently in progress. New initiatives are being explored and the Group continues to target full delivery of the €97 million total savings by mid-2012.

### Financial Position

Aer Lingus' gross cash balance of €927.3 million, as at 30 September 2011, represents a €7.9 million increase in the three months since June 2011. This increase is primarily attributable to the quarterly operating profit in addition to a €20.4 million FX gain. Significant outflows include seasonal working capital movements (as advance ticket sales were converted to flown passengers), net capex of €15.4 million and a finance lease repayment of €11.0 million.

Gross debt increased by €10.9 million since June 2011 to €572.7 million as at 30 September 2011. This increase was due to €20.4 million of FX movements in the quarter partly offset by the €11.0 million finance lease repayment noted above.

### Outlook

We expect that year-on-year revenue percentage growth in Q4 2011 will be broadly in line with that achieved during Q3 2011. However, Aer Lingus' Q4 2011 operating result will be impacted by higher quarterly fuel and airport charges, which are expected to increase compared to Q4 2010. We therefore expect that the Q4 2011 operating loss will be higher than that reported for the same period in 2010.

Notwithstanding these Q4 2011 factors, Aer Lingus expects that its full year 2011 operating result, before exceptional items, will be at the upper end of the range of current market expectations.

It is too early to provide detailed guidance for 2012. However, the primary factors which are likely to influence trading performance in 2012 will be an expected slowdown in yield growth momentum, low single digit passenger volume increases and higher fuel costs.

## Appendix

### Aer Lingus operating metrics (un-audited)

	Three Months Ended 30 September			Nine Months Ended 30 September		
	2011	2010	Change	2011	2010	Change
<b>Passengers carried ('000s) *</b>						
Short haul	2,672	2,611	2.3%	6,645	6,613	0.5%
Long haul	286	287	(0.3%)	676	690	(2.0%)
<b>Total</b>	<b>2,958</b>	<b>2,898</b>	<b>2.1%</b>	<b>7,321</b>	<b>7,303</b>	<b>0.2%</b>
<b>Revenue Passenger Kilometres (RPKs) (million) *</b>						
Short haul	3,038	2,929	3.7%	7,276	7,249	0.4%
Long haul	1,496	1,498	(0.1%)	3,555	3,624	(1.9%)
<b>Total</b>	<b>4,534</b>	<b>4,427</b>	<b>2.4%</b>	<b>10,831</b>	<b>10,873</b>	<b>(0.4%)</b>
<b>Available Seat Kilometres (ASKs) (million)</b>						
Short haul	3,689	3,604	2.4%	9,718	9,592	1.3%
Long haul	1,681	1,703	(1.3%)	4,521	4,523	(0.1%)
<b>Total</b>	<b>5,370</b>	<b>5,307</b>	<b>1.2%</b>	<b>14,239</b>	<b>14,115</b>	<b>0.9%</b>
<b>Passenger load factor (flown RPKs per ASKs) *</b>						
Short haul	82.4%	81.3%	1.1 pts	74.9%	75.6%	(0.7) pts
Long haul	89.0%	88.0%	1.0 pts	78.6%	80.1%	(1.5) pts
<b>Total</b>	<b>84.4%</b>	<b>83.4%</b>	<b>1.0 pts</b>	<b>76.1%</b>	<b>77.0%</b>	<b>(0.9) pts</b>
<b>Average yield per passenger (€)</b>						
Short haul	100.41	95.49	5.2%	92.66	86.24	7.4%
Long haul	351.05	340.77	3.0%	324.86	306.40	6.0%
<b>Total</b>	<b>124.65</b>	<b>119.81</b>	<b>4.0%</b>	<b>114.10</b>	<b>107.05</b>	<b>6.6%</b>
Retail revenue per passenger (€)	18.26	17.21	6.1%	17.96	17.88	0.5%
Aer Lingus Regional passengers carried ('000)	222	152	46.1%	563	260	116.5%

\* Based on FLOWN passenger numbers and excluding Aer Lingus Regional Services operated by Aer Arann and the Washington Dulles – Madrid codeshare service operated in partnership with United Airlines. These figures differ from those published in Aer Lingus' monthly traffic statistics which are based on BOOKED passenger numbers.

**Note on forward-looking information**

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