Aer Lingus Group plc

ISE: EIL1 LSE: AERL

Interim Management Statement

Dublin and London, 5th May 2011: Aer Lingus Group plc ("Aer Lingus" or the "Group") today issues an un-audited interim management statement for the period from 1 January 2011 to 31 March 2011, representing the first quarter of the Group's financial year.

Performance Highlights

- Positive yield performance in Q1 2011 despite difficult demand conditions. Yield per passenger up 9.0% vs. Q1 2010.
- Q1 2011 operating loss before exceptional items of €53.7 million increased by 41.7% compared to prior year.
- Compared to Q1 2010, Q1 2011 performance was negatively affected by the IMPACT cabin crew dispute in January and February, the timing of the Easter holiday period and poor performance of some Irish originating leisure routes.
- Early yield indications appear positive for Q2 and Q3 2011.
- Despite a difficult start to the year, the operating result is line with our expectations and management still expects that Aer Lingus will generate an operating profit before exceptional items for 2011, but now at a significantly lower level than in 2010.

€m (un-audited)	**Quarter Ended 31 March[1]**		
	2011	**2010**	***Change [2]***
Revenue			
- Short Haul Fare Revenue	132.2	136.9	*(3.4%)*
- Long Haul Fare Revenue	42.3	44.1	*(4.1%)*
- Ancillary Revenue	32.5	38.3	*(15.1%)*
Total Passenger Revenue	207.0	219.3	*(5.6%)*
Cargo Revenue	10.7	9.0	*18.9%*
Other Revenue	0.2	0.5	*(60.0%)*
Total Revenue	**217.9**	**228.8**	***(4.8%)***
Fuel Costs	(52.2)	(54.9)	*(4.9%)*
Staff Costs	(61.1)	(67.3)	*(9.2%)*
Other Operating Costs	(158.3)	(144.5)	*9.6%*
Total Operating Costs	**(271.6)**	**(266.7)**	***1.8%***
Operating Profit/(Loss) before exceptional items	**(53.7)**	**(37.9)**	***41.7%***
Exceptional items	(2.2)	-	*Na*
Operating Profit/(Loss) after exceptional items	**(55.9)**	**(37.9)**	***47.5%***
EBITDAR [3]	**(21.9)**	**(4.6)**	***376.1%***
Gross Cash [4]	**925.1**	**918.9**	***0.7%***
Debt	**547.7**	**514.5**	***6.5%***

[1] The above financial results have not been audited
[2] Sign convention: increase / (decrease)
[3] Earnings Before Interest, Tax, Depreciation, Amortisation & aircraft operating lease rental
[4] Gross cash includes restricted cash of €46.9m (2010: €57.1m)

CEO Performance Review

Christoph Mueller, Aer Lingus' CEO said:

"As anticipated, we experienced a challenging start to 2011. Our performance was affected by the IMPACT cabin crew disruption in January and February, as well as difficult demand conditions, particularly on leisure routes from Ireland. Despite this, the operating result is in line with our expectations and we are pleased that we have succeeded in growing average passenger yield by 9.0%.

While we still expect that Aer Lingus will be profitable in 2011, we expect that the level of profitability will be much lower than in 2010.

In light of the continued weakness of the Irish economy and pressures on non-controllable costs, we are assessing whether the Greenfield cost reduction programme is sufficient to protect profitability for the future or whether further measures are required. We will update the market in due course."

Conference Call Details

The Aer Lingus management team will host a conference call for institutional investors and analysts at 8.30am BST on 5 May 2011. Dial in details are:

Ireland	+353 1 436 4265
United Kingdom	+44 208 817 9301
Confirmation Code	*4667340*

Further Enquiries

Investors & Analysts			
Declan Murphy	Aer Lingus Investor Relations	Tel:	+353 1 886 2000
Jonathan Neilan	FD K Capital Source	Tel:	+353 1 663 3686
Media			
Declan Kearney	Aer Lingus Communications	Tel:	+353 1 886 2000
International Media			
Victoria Palmer-Moore	Powerscourt	Tel:	+44 207 250 1446
vpm@powerscourt-group.com			
Matthew Fletcher	Powerscourt	Tel:	+44 207 250 1446
matthew.fletcher@powerscourt-group.com			
Irish Media			
Sheila Gahan	Wilson Hartnell Public Relations	Tel:	+353 87 234 2409
sheila.gahan@ogilvy.com			
Brian Bell	Wilson Hartnell Public Relations	Tel:	+353 87 243 6130
brian.bell@ogilvy.com			

Review – January to March 2011

Introduction

As anticipated at the time of issue of the Group's 2010 full year results, Q1 2011 was a difficult start to the year although the result was in line with our expectations. Trading in Q1 2011 compared to prior year was negatively affected by the IMPACT cabin crew industrial action as well as the later timing of Easter in 2011. In addition, the performance of Irish originating leisure routes was weak in the quarter which offset some of the savings from the Shannon and Gatwick capacity reductions.

These combined factors resulted in an increase in the Q1 operating loss (before exceptional items) from €37.9 million in 2010 to €53.7 million in 2011.

Review of market conditions
Economic indicators in our key markets remain uncertain. We note that the Irish Government has downgraded its GDP growth forecast to 0.8% for 2011. In addition, passenger volumes passing through Dublin Airport for Q1 2011 are down 2% on prior year.

While Irish demand on some leisure routes has been weak, there has been some compensation on UK / London "business" routes. Nonetheless, we may be forced to further reduce capacity on under-performing routes if demand softness continues.

The Group is currently examining whether the Greenfield cost reduction programme combined with an ongoing focus on costs is sufficient to protect profitability for the future or, alternatively, whether further measures are required, given the above factors and fuel price inflation. We will update the market in due course.

Revenue
Q1 revenue decreased by 4.8% compared to prior year despite an 11.0% reduction in capacity. Approximately 6% of this capacity reduction reflects a deliberate decision to fly reduced services in a period of seasonally weak demand with increased flight activity planned for later in the year. Specifically, the lower capacity reflects deliberate reductions in our Gatwick and Shannon bases in addition to the allocation of some Cork based traffic to the Aer Lingus Regional franchise where the economics of certain routes are better suited to turboprop rather than jet aircraft. The balance of the reduction represents cancelled flights as a result of the IMPACT cabin crew dispute. The uncertainty caused by the dispute also contributed to some of the passenger volume weakness seen in Q1 2011.

In addition, we estimate that the later timing of Easter in 2011 impacted Q1 2011 revenues by approximately €5m compared to Q1 2010.

Positively, Aer Lingus has continued the passenger yield improvements achieved in 2010. As previously noted, yield growth continues to be supported by changes in consumer behaviour with a trend towards later bookings. Average yield per passenger increased by 9.0% while load factor decreased by 2.5 percentage points. The increase in average fare was partly driven by removal of the poorest performing Gatwick routes as well as an increased proportion of business travellers in the overall passenger mix.

Short haul passenger revenues
Short haul passenger fare revenues decreased by 3.4% to €132.2 million in Q1 2011. Average short haul yield per passenger increased by 9.0% in the quarter while passenger volumes declined by 11.4%. Load factor declined by 2.3 percentage points primarily due to the weakness on leisure routes noted above. Short haul yield per Available Seat Kilometre ("ASK") increased by 9.7% in the quarter.

Long haul passenger revenues
Long haul passenger fare revenues decreased by 4.1% to €42.3 million in Q1 2011. This decrease comprises a combination of a 10.7% increase in average yield per long haul passenger offset by a 2.9 percentage point decrease in load factor to 68.0%. Long haul yield per ASK increased by 5.1%.

Business class revenues continued to experience a relatively strong performance and contributed approximately 27% of total long haul revenues during the quarter compared to approximately 23% in Q1 2010.

Ancillary revenue
Ancillary revenue per passenger amounted to €18.24 in Q1 2011 compared to €19.02 in Q1 2010. This decline reflects a number of factors including a lower number of passengers paying for checked baggage (consistent with weaker performance on leisure routes) and this is likely to be a continuing factor for 2011.

Operating expenses
Overall, total operating expenses increased slightly by 1.8% compared to prior year.

Q1 2011 fuel costs decreased by 4.9% compared to 2010. This movement comprises an 11% decline in quarterly fuel consumption partly offset by a higher average fuel cost per metric tonne (excluding intoplane costs) of US$772 for Q1 2011 compared to US$739 in Q1 2010.

Quarterly staff costs declined by 9.2%. This was primarily due to a flow through from actions taken in 2010 under the Greenfield programme. As noted at the announcement of 2010 full year results, 2011 full year staff costs are expected to be flat compared to prior year (subject to operational changes).

The increase in other operating costs compared to prior year reflects €7.3 million of aircraft and crew hire-in costs which were incurred to minimise the impact of cabin crew industrial action on our passengers. We estimate that the total cost of the dispute on the operating result was approximately €15 million reflecting lost passenger and ancillary revenues as well as increased lease and other costs.

In addition, we incurred higher airport charges relative to the level of activity in Q1 2011 with the average charge per passenger increasing by 14% versus prior year. Other operating costs include increased distribution charges due to use of higher yielding distribution channels and Greenfield implementation costs which will continue for the rest of the year.

The exceptional costs of €2.2 million represent programme costs on IT upgrade projects to improve passenger and yield management. These costs will continue to be incurred throughout 2011.

Fuel & Currency Hedging

As at 31 March 2011, the Group had hedged 71% of its remaining 2011 fuel requirements at an average of US$811 per metric tonne. 16% of 2012 fuel requirements are hedged at US$862 per metric tonne. A summary of the updated quarterly fuel hedging position for 2011 is:

Fuel	Q2 2011	Q3 2011	Q4 2011	Full yr 2011
Estimated burn (MT)	125,188	127,275	106,475	449,268
% hedged	80%	65%	51%	71%
Avg. hedged price/MT (US$)	809	826	849	811

Following the significant increase in fuel prices and associated volatility in early 2011, management temporarily suspended its systematic fuel hedging programme, as permitted by hedging policy. Fuel price volatility has reduced and fuel hedging has re-commenced. However, the Group will continue to monitor fuel spot and forward prices carefully.

As at 31 March 2011, 75% of the estimated US$ trading requirement for the rest of 2011 was hedged at US$1.43. For 2012, 42% of the Group's estimated US$ trading requirement is hedged at US$1.44.

80% of Aer Lingus' estimated Sterling trading surplus for the remainder of 2011 is hedged at Stg£0.85 as at the end of March 2011. 13% of the estimated 2012 Sterling surplus is also hedged at Stg£0.85.

Greenfield Cost Reduction Programme Progress

At the end of March 2011, the Group had achieved total Greenfield cost savings with an annual value €71.9 million. 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 Q1	Annual value of total savings achieved by end of Q1 2011
Staff	50.0	2.6	52.6
Non-staff	3.9	15.4	19.3
Total	**53.9**	**18.0**	**71.9**

Aer Lingus continues to evaluate candidate proposals and implement initiatives to deliver the additional savings required to fully achieve the Greenfield programme. This includes proposals to address the significant seasonality inherent in Aer Lingus' current business model. The Group will continue to provide updates on progress throughout 2011.

As noted above, Aer Lingus is currently assessing whether the Greenfield programme combined with an ongoing focus on costs will be sufficient to preserve the profitability of the Group in future years or whether further measures may be required.

Financial Position

Aer Lingus' gross cash balance of €925.1 million as at 31 March 2011 represents a €40.1 million increase in the three months since December 2010. This increase in cash was primarily attributable to seasonal working capital inflows associated with ticket sales in advance of the peak second and third quarters. This inflow was partly offset by the exceptional tax settlement with Revenue announced in March 2011.

Gross debt increased by €12.5 million since December 2010 to €547.7 million as at 31 March 2011. This increase was due to €48.9 million of finance lease drawdown partly offset by €26.2 million of FX movements and €11.5 million of debt repayments.

Dividend

We refer to agenda item 12 ("Statements and questions on Company's dividend policy") of Aer Lingus' Annual General Meeting scheduled for tomorrow, 6 May 2011.

The Board continues to evaluate the respective merits of balance sheet strength and payment of a dividend to shareholders. The Board believes that it is in the best interests of all shareholders to consider a dividend when there is a more durable recovery and consequent earnings visibility.

While Aer Lingus reported a strong operating profit performance in 2010, current operating conditions are challenging and, against this backdrop, the Board believes that there is greater scope to sustain shareholder value through balance sheet strength.

Other Developments

Fleet

As previously indicated, Aer Lingus has now exercised an option with Airbus to defer an order for 3 A330 aircraft which were originally scheduled for delivery in 2013 and 2014. Instead, Aer Lingus will take delivery of 3 A350 aircraft no earlier than 2018.

Aer Lingus continues to invest in its business and the Group acquired 2 A320 aircraft in January and March using finance lease arrangements. The Group also returned 1 A321 aircraft, held on operating lease, during Q1 2011.

There were also a number of fleet changes after quarter end, namely the purchase on finance lease of a third new A320, return of 2 operated leased A321s and the sale of an older A330 for a small gain above the book value of the aircraft.

The Group expects to take delivery of a fourth, finance leased, A320 by the end of June with no further fleet additions planned for the remainder of 2011. The Group continues to consider the sale of an owned A320 over the remainder of the year.

Following these changes, the long haul fleet will comprise 7 aircraft while the short haul fleet should remain unchanged at 36 aircraft by the end of 2011.

Board

Tom Corcoran has been on the Board of Aer Lingus for four years and will retire from the Board following the AGM on 6th May 2011. Colm Barrington, Aer Lingus Chairman, commented *"I would like to thank Tom Corcoran for his outstanding dedication and his significant contribution to the Group during the period of his directorship. I wish him very well in the future."*

Outlook

As previously noted, economic indicators in our key markets remain uncertain with the Irish Government recently downgrading its GDP growth forecast for 2011 and a continuing decline in passenger volumes passing through Dublin Airport in Q1 2011.

However, we are encouraged by early indications for Q2 and Q3 revenues. Based on current visibility to September 2011, yields are ahead of prior year in the low single digit range and booking factors for the period are broadly in line with prior year. However, the Group's performance in April and May 2010 was adversely impacted by airspace closures due to the Icelandic volcanic ash disruption. For this reason, it is difficult to assess underlying performance for these months in the current year compared to 2010.

Fuel costs remain a concern and jet fuel price inflation will most likely fully absorb further yield improvements in 2011 despite the benefits of the Group's fuel hedging programme.

In view of this and the weakness evident in the Q1 2011 trading performance, management still expects that Aer Lingus will generate an operating profit before exceptional items in 2011, but now at a significantly lower level than in 2010.

Appendix

Aer Lingus operating metrics (un-audited)

	Three Months Ended 31 March 2011	2010	Change
Passengers carried ('000s) *			
Short haul	1,632	1,841	(11.4%)
Long haul	149	173	(13.9%)
Total	**1,781**	**2,014**	**(11.6%)**
Revenue Passenger Kilometres (RPKs) (million) *			
Short haul	1,634	1,922	(15.0%)
Long haul	799	914	(12.6%)
Total	**2,433**	**2,836**	**(14.2%)**
Available Seat Kilometres (ASKs) (million)			
Short haul	2,476	2,813	(12.0%)
Long haul	1,175	1,290	(8.9%)
Total	**3,651**	**4,103**	**(11.0%)**
Passenger load factor (%) (flown RPKs per ASKs) *			
Short haul	66.0%	68.3%	(2.3) pts
Long haul	68.0%	70.9%	(2.9) pts
Total	**66.6%**	**69.1%**	**(2.5) pts**
Average yield per passenger (€)			
Short haul	81.03	74.35	9.0%
Long haul	282.88	255.55	10.7%
Total	**97.96**	**89.89**	**9.0%**
Ancillary revenue per passenger (€)	18.24	19.02	(4.1%)

* 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.