Aer Lingus Group plc

ISE: EIL1 LSE: AERL

Interim Management Statement

Dublin and London, 5th November 2010: Aer Lingus Group plc ("Aer Lingus" or the "Group") today issues an un-audited interim management statement for the period from 1 July 2010 to 30 September 2010, representing the third quarter of the Group's financial year.

Performance Highlights

- Strong performance in Q3 2010. Yield per passenger up 12.5% in the quarter and 10.2% year to date.
- Operating profit up 35.4% to €79.2 million for Q3 2010. Year to date operating profit of €60.2 million (2009 loss of €34.4 million).
- The "Greenfield" cost reduction programme continues to make good progress.
- Gross cash of €951.9 million at the end of September 2010.

€m (un-audited)	Quarter Ended 30 September [1]			Year-to-date 30 September [1]		
	2010	2009	*Change [2]*	2010	2009	*Change [2]*
Revenue						
- Short Haul Fare Revenue	249.3	237.7	*4.9%*	570.3	562.7	*1.3%*
- Long Haul Fare Revenue	97.9	90.9	*7.7%*	211.5	217.5	*(2.8%)*
- Ancillary Revenue	49.9	51.7	*(3.5%)*	130.6	135.7	*(3.8%)*
Total Passenger Revenue	397.1	380.3	*4.4%*	912.4	915.9	*(0.4%)*
Cargo Revenue	10.4	8.5	*22.3%*	29.6	25.4	*16.5%*
Other Revenue	4.2	1.3	*223.1%*	7.7	3.9	*97.4%*
Total Revenue	**411.7**	**390.1**	***5.5%***	**949.7**	**945.2**	***0.5%***
Fuel Costs	77.0	76.2	*1.1%*	209.2	265.8	*(21.3%)*
Staff Costs	61.9	77.0	*(19.6%)*	197.6	229.0	*(13.7%)*
Other Operating Costs	193.6	178.4	*8.5%*	482.8	484.7	*(0.4%)*
Total Operating Costs	**332.5**	**331.6**	***0.3%***	**889.5**	**979.6**	***(9.2%)***
Operating Profit/(Loss) before exceptional items	**79.2**	**58.5**	***35.4%***	**60.2**	**(34.4)**	***275.0%***
EBITDAR [3]	**120.5**	**92.2**	***30.7%***	**166.9**	**66.6**	***150.6%***
Gross Cash [4]	**951.9**	**969.3**	***(1.8%)***			
Debt	**530.8**	**569.4**	***(6.8%)***			

[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 €49.0m (2009: €59.5m)

CEO Performance Review & Outlook

Christoph Mueller, Aer Lingus' CEO said:

"Our performance in the third quarter and year to date is a very significant improvement on 2009 and strongly supports our strategy. However, we remain cautious on the outlook for 2011 given concerns about the durability of the recent aviation sector performance as well as continuing economic uncertainty in our primary markets.

I would like to express my appreciation to all our staff for the hard work and commitment applied in achieving this result."

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 2010. Dial in details are:

Ireland	+353 1 436 4265
United Kingdom	+44 208 817 9301
Confirmation Code	*3754821*

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 - July to September 2010

Introduction

Aer Lingus experienced strong trading in Q3 2010. This was primarily attributable to a continuation of passenger yield improvements achieved in Q2 2010 combined with a significantly increased load factor in the long haul business. Yield growth continues to be supported by changes in consumer behaviour with a trend towards later bookings.

Revenue

Revenue in the quarter increased by 5.5% compared to prior year despite an 11.7% reduction in capacity mainly attributable to planned reductions in transatlantic and Gatwick services. Average yield per passenger and load factor increased by 12.5% and 3.0 percentage points, respectively.

Short haul passenger revenues

Short haul passenger fare revenues increased by 4.9% to €249.3 million in Q3 2010. Average short haul yield per passenger increased by 11.1% in the quarter while passenger volumes declined by 5.6%. This volume decline is mainly attributable to reduced Gatwick activities compared to Q3 2009. Short haul yield per Available Seat Kilometre (“ASK”) increased by 9.7%.

Q3 2010 short haul load factor of 81.3% represents a slight decline of 0.6 percentage points compared to prior year but is still a substantial progression on the short haul load factor achieved in the second quarter of 2010.

Long haul passenger revenues
Long haul revenues in the third quarter of 2010 were €97.9 million, up 7.7% on 2009. This increase was driven by a combination of a 19.7% increase in average yield per long haul passenger as well as a 10.2 percentage point increase in load factor to 88.0%, which offset the capacity reductions made over the last year. Long haul yield per ASK increased significantly by 42.0%.

Business class revenues contributed an average of approximately 17% of total long haul revenues during the quarter compared to an average of approximately 13% in Q3 2009.

Ancillary revenue
Ancillary revenues continue to perform strongly on a per passenger basis with a 2.7% increase in the quarter to €17.21.

Operating expenses
Overall, total operating expenses remained broadly flat in Q3 2010 compared to prior year.

Fuel costs in Q3 2010 increased by 1.1% compared to 2009. This reflects a higher average cost per tonne compared to prior year offset by lower fuel consumption related to reduced flight activity. The average fuel cost per metric tonne (excluding intoplane costs) for Q3 2010 was US$723 compared to US$708 in Q3 2009.

Quarterly staff costs declined by 19.6% as a result of the Greenfield initiative and the flow-through of savings from earlier cost reduction programmes.

The increase in other operating costs compared to prior year reflects higher airport charges, project and other costs but also includes higher depreciation charges than 2009 relating to property and aircraft cabin fit out.

Review – Year to Date September 2010

Introduction
As part of its new strategy, Aer Lingus reduced capacity over the last year, particularly in its long haul business, to better match market demand. The Group has also changed its approach to yield management with a view to optimising the total revenue for each flight. As a result, average yield per passenger increased by 10.2% over 2009 and total revenue for the nine months ended September 2010 increased by 0.5%, notwithstanding a 14.2% year-on-year capacity reduction.

Capacity reduction, coupled with lower fuel prices and the benefits of Greenfield and earlier cost programmes have reduced year-on-year operating costs by €90.1 million. This, together with a small increase in revenue has led to a year-to-date operating profit of €60.2 million compared with a prior period loss of €34.4 million.

Revenue
Short haul passenger revenues
Year to date short haul passenger fare revenues increased by 1.3% to €570.3 million. The average yield per passenger generated on short haul routes in the period increased by 10.0% while passenger volumes declined by 7.9%. Most of this decrease is attributable to planned capacity reductions (particularly at Gatwick) as well as volcanic ash disruption in March and April.

Short haul load factor for the first nine months of 2010 decreased by 1.5 percentage points to 75.6%. Short haul yield per ASK increased by 6.6% compared to prior year.

Long haul passenger revenues
Long haul revenue for the year to September decreased by 2.8% to €211.5 million. This reflects the significantly lower long haul capacity deployed in the first nine months of 2010 (down 28.9%) partly offset by a 19.4% increase in average long haul yield per passenger and load factor up 7.2 percentage points. Long haul yield per ASK increased by 36.8%.

Ancillary revenue
Year to date ancillary revenue per passenger increased by 5.7% to €17.88.

Operating expenses
For the first nine months of 2010, total operating expenses decreased by 9.2% compared to 2009. This improvement reflects reductions across a broad range of cost items including staff costs and maintenance expenses as well as volume related costs.

Year to date fuel costs declined by 21.3% compared to prior year. This is due to a combination of lower fuel consumption and lower cost per tonne. The average fuel cost per metric tonne (excluding intoplane costs) for the nine months to September 2010 was US$773 compared to US$907 for 2009.

Fuel & Currency Hedging

As at 30 September, 88% of the estimated remaining 2010 fuel requirements were hedged at US$738 per metric tonne. 49% of the estimated fuel requirement for 2011 was hedged at US$778 per metric tonne.

86% of the estimated US$ trading requirement for the rest of 2010 was hedged at US$1.47. For 2011, 64% of the Group's estimated US$ trading requirement is hedged at US$1.42.

80% of Aer Lingus' estimated Sterling trading surplus for the remainder of 2010 is hedged at Stg£0.88. 51% of the estimated 2011 Sterling surplus is hedged at Stg£0.86.

Financial Position

Aer Lingus' gross cash balance of €951.9 million as at 30 September 2010 represents a €57.8 million decline in the three months since June 2010. Cash generated from operations in the quarter was offset by the seasonal working capital outflow associated with lower levels of advance ticket receipts. The reduction in cash was primarily attributable to €36.0 million of scheduled finance lease repayments in the quarter and the adverse effect of exchange rate movements on balances held in US dollars.

Gross debt fell by €77.4 million in the third quarter of 2010 due to the scheduled debt repayments noted above as well as FX movements. On a year to date basis, gross debt has increased by €38.2 million due to the impact of finance lease debt drawdown and FX movements partially reduced by debt repayments.

In July 2010, Aer Lingus entered into a 24 month sale and leaseback transaction in respect of an A320 aircraft.

Greenfield Cost Reduction Programme Progress

€m	Achieved at 30 September 2010	Forecast 2010
Staff savings – in year	22	35
Staff savings – run rate	39	49

Cumulative in-year staff savings generated over the first nine months of 2010 amount to €22 million. The full year effect of these staff savings corresponds to €39 million. These savings relate primarily to pay and headcount reductions since March 2010.

Aer Lingus continues to expect in-year staff savings of €35 million in 2010. However, this is provided that there is no escalation of the current industrial action by cabin crew and that pilot industrial action, which is believed will commence in mid-November, will not significantly disrupt operations.

By the end of 2010, the Group expects to deliver staff and non-staff savings with an annual value of at least €49 million and €4 million, respectively. There has been a slight (i.e. €1 million) reduction to the annual value of staff savings expected to be achieved by the end of 2010. However, the Group expects to recover this shortfall in early 2011.

Other Developments

The Group is very satisfied with the performance of the joint venture with United Airlines and discussions are underway to add a second aircraft next year. The Aer Lingus Regional franchise performed in line with expectations in Q3 despite Aer Arann's examinership.

Aer Lingus will continue to invest in its business. The Group will take delivery of four A320 Airbus aircraft in H1 2011. These new aircraft will replace older aircraft which are currently held on operating lease and which are scheduled to leave the fleet in 2011.

Outlook

The outlook for the remainder of 2010 is unchanged and we re-affirm our full year guidance issued on 13 October 2010 to the effect that we expect operating profit before exceptional items to be at the top end of market forecasts at the time of that announcement. However, this expectation is contingent on the continued delivery of committed staff productivity savings and continued stability in Aer Lingus' operating environment and no escalation of the current industrial action.

We continue to have concerns about the sustainability of the current aviation sector upturn in Europe and North America. In addition, Aer Lingus remains exposed to the continuing weakness of the Irish economy. We also note the uncertain impact that proposed austerity measures may have on Irish and UK consumer confidence and spending.

Aer Lingus expects that the year-on-year yield growth momentum experienced in 2010 will moderate as the Group's 2011 performance is compared to 2010, which has benefited from significant changes to the Group's strategy on capacity and yield management.

Completion of the Greenfield cost reduction programme remains vital if 2010 profitability is to be sustained into 2011 and for the longer-term.

Appendix

Aer Lingus Operating Metrics (Un-Audited)

	Three Months Ended 30 September			Nine Months Ended 30 September		
	2010	2009	Change	2010	2009	Change
Passengers carried ('000s) *						
Short haul	2,611	2,765	(5.6%)	6,613	7,180	(7.9%)
Long haul	287	319	(10.0%)	690	847	(18.5%)
Total	**2,898**	**3,084**	**(6.0%)**	**7,303**	**8,027**	**(9.0%)**
Revenue Passenger Kilometres (RPKs) (million) *						
Short haul	2,929	3,089	(5.2%)	7,249	7,775	(6.8%)
Long haul	1,498	1,745	(14.2%)	3,624	4,638	(21.9%)
Total	**4,427**	**4,834**	**(8.4%)**	**10,873**	**12,413**	**(12.4%)**
Available Seat Kilometres (ASKs) (million)						
Short haul	3,604	3,769	(4.4%)	9,592	10,090	(4.9%)
Long haul	1,703	2,243	(24.1%)	4,523	6,363	(28.9%)
Total	**5,307**	**6,012**	**(11.7%)**	**14,115**	**16,453**	**(14.2%)**
Passenger load factor (%) (flown RPKs per ASKs) *						
Short haul	81.3%	81.9%	(0.6) pts	75.6%	77.1%	(1.5) pts
Long haul	88.0%	77.8%	10.2 pts	80.1%	72.9%	7.2 pts
Total	**83.4%**	**80.4%**	**3.0 pts**	**77.0%**	**75.4%**	**1.6 pts**
Average yield per passenger (€)						
Short haul	95.49	85.96	11.1%	86.24	78.37	10.0%
Long haul	340.77	284.65	19.7%	306.40	256.68	19.4%
Total	**119.81**	**106.52**	**12.5%**	**107.05**	**97.19**	**10.2%**
Ancillary revenue per passenger (€)	17.21	16.77	2.7%	17.88	16.91	5.7%

* 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.