

# Aer Lingus Group plc

ISE: EIL1

LSE: AERL

## Interim Management Statement

**Dublin and London, 7 November 2012:** Aer Lingus Group plc (“Aer Lingus” or “the Group”) today issues an un-audited interim management statement for the period from 1 July 2012 to 30 September 2012, representing the third quarter of the Group’s financial year.

### Performance Highlights

- Excellent first nine months of 2012 with operating profit of €86.5 million, 29.7% ahead of prior year.
- Strong Q3 2012 operating profit of €90.9 million despite weaker business demand on core routes to London during the Olympic Games and fuel price and airport charge inflation.
- Total passenger numbers in Q3 2012 (including Aer Lingus Regional) increased by 2.0%.
- Positive Q3 yield performance with overall yield per passenger up 7.2%. Long haul yields remained particularly strong, increasing by 11.5% on prior year.
- Forward bookings as at 30 September 2012 are ahead of previous year.
- “Greenfield” cost saving targets over-achieved. Cost saving initiatives continue.
- Payment of dividend of 3 cent per share in the period. Balance sheet remains strong.
- Long haul capacity growth planned for 2013.

€m (un-audited)	Quarter Ended 30 September <sup>1</sup>			Year-to-date 30 September <sup>1</sup>		
	2012	2011 As restated <sup>2</sup>	Change <sup>3</sup>	2012	2011 As restated <sup>2,7</sup>	Change <sup>3</sup>
<b>Revenue</b>						
- Short haul fare revenue	275.9	268.3	2.8%	644.7	615.8	4.7%
- Long haul fare revenue	116.8	100.4	16.3%	260.9	219.5	18.9%
- Retail revenue	53.3	54.0	(1.3%)	137.8	131.5	4.8%
Total passenger revenue	446.0	422.7	5.5%	1,043.4	966.8	7.9%
Cargo revenue	10.2	10.1	1.0%	33.6	32.1	4.7%
Other revenue	4.6	3.0	53.3%	10.1	6.0	68.3%
<b>Total revenue</b>	<b>460.8</b>	<b>435.8</b>	<b>5.7%</b>	<b>1,087.1</b>	<b>1,004.9</b>	<b>8.2%</b>
Fuel costs	(106.9)	(83.7)	27.7%	(274.8)	(213.3)	28.8%
Staff costs	(69.9)	(69.2)	1.0%	(201.6)	(196.0)	2.9%
Other operating costs	(193.1)	(189.3)	2.0%	(524.2)	(528.9)	(0.9%)
<b>Total operating costs</b>	<b>(369.9)</b>	<b>(342.2)</b>	<b>8.1%</b>	<b>(1,000.6)</b>	<b>(938.2)</b>	<b>6.7%</b>
<b>Operating profit/(loss) before exceptional items</b>	<b>90.9</b>	<b>93.6</b>	<b>(2.9%)</b>	<b>86.5</b>	<b>66.7</b>	<b>29.7%</b>
<b>Operating Margin</b>	<b>19.7%</b>	<b>21.5%</b>	<b>(1.8 pts)</b>	<b>8.0%</b>	<b>6.6%</b>	<b>1.4 pts</b>
Exceptional items	(4.9)	(0.1)	NM <sup>4</sup>	(24.7)	14.8	NM <sup>4</sup>
<b>Operating profit/(loss) after exceptional items</b>	<b>86.0</b>	<b>93.5</b>	<b>(8.0%)</b>	<b>61.8</b>	<b>81.5</b>	<b>(24.2%)</b>
<b>EBITDAR <sup>5</sup></b>	<b>121.4</b>	<b>123.8</b>	<b>(1.9%)</b>	<b>177.8</b>	<b>159.5</b>	<b>11.5%</b>
<b>Gross Cash <sup>6</sup></b>	<b>990.8</b>	<b>927.3</b>	<b>6.9%</b>			
<b>Debt</b>	<b>549.7</b>	<b>572.7</b>	<b>(4.0%)</b>			

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

<sup>2</sup> 2011 comparatives have been restated following a voluntary change in accounting policy adopted in Q4 2011 and applied retrospectively related to IAS 19 “employee benefits”. Following the change, actuarial gains and losses associated with post employment benefit obligations are recognised in the statement of comprehensive income rather

than the income statement. The previously reported operating results, before net exceptional items, were €94.6 million and €66.8 million for Q3 2011 and year-to-date 30 September 2011, respectively.

<sup>3</sup> Sign convention: increase / (decrease)

<sup>4</sup> Not meaningful

<sup>5</sup> Earnings Before Interest, Tax, Depreciation, Amortisation & aircraft operating lease rental

<sup>6</sup> Gross cash includes restricted cash of €23.9m (2011: €28.8m)

<sup>7</sup> 2011 year-to-date figures were impacted by industrial action in Q1 2011 which cost the Group an estimated €15 million in lost revenue and additional costs

## CEO Performance Review

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

*"Aer Lingus had a strong third quarter, generating an operating profit, before exceptional items, of €90.9 million.*

*The positive Q3 2012 result reflects the ongoing success of our strategy to manage capacity deployment across the network, concentrating on serving higher yielding, time sensitive demand and continuing to focus on cost reduction.*

*I am particularly proud that our team has achieved this result against the backdrop of the third Ryanair offer for the Group, formally made on 17 July. As a consequence we remain subject to the Irish Takeover Rules and have to conduct our business within its restrictions. In this context, this Interim Management Statement does not contain an outlook statement.*

*Passenger yields and load factors increased across both short and long haul services in Q3 and total passengers carried increased by 2.0%. We over-achieved our "Greenfield" cost saving target with more than €100 million annual savings and were also pleased to pay our first dividend to shareholders during the period.*

*Aer Lingus' gross cash at 30 September 2012 was €990.8 million, €63.5 million up on prior year after allowing for a €16.0 million dividend payment in Q3 2012.*

*Overall, this strong Q3 result follows on from a solid 2012 first half performance. We remain focused on achieving continued cost savings and greater efficiency within the business against a challenging macro-economic backdrop, an increasingly competitive environment and continued inflation in fuel prices and airport charges.*

*Forward bookings at the end of Q3 were stronger than in the same period last year. Due to increased demand, an additional aircraft is required to serve our long haul network on the North Atlantic. Fortunately, we have an A330 returning to our fleet from the extended codeshare with United Airlines and we will redeploy this aircraft to serve our North Atlantic market.*

*The growth of our short haul business in London Heathrow is dependent on the allocation of former bmi remedy slots for the operation to Edinburgh and we expect a decision as to the ranking of our application by the European Commission by 15 November 2012.*

*The growth potential of our regional short haul business in 2013 is currently restricted by a lack of bussing gates in our Terminal in Dublin."*

## Conference Call Details

The Aer Lingus management team will host a conference call for institutional investors and analysts at 8.30am GMT on 7 November 2012. Dial in details are:

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## Further Enquiries

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## Review – July to September 2012

### Overview

Aer Lingus delivered a strong performance in Q3, recording an operating profit of €90.9 million, before net exceptional items.

The robust Q3 result reflects the continuing success of the Group's strategy of carefully managing capacity deployment across the network, concentrating on serving higher yielding, time sensitive demand and continuing to focus on cost reduction.

Passenger revenue in Q3 was 5.5% ahead of Q3 2011 driven by positive variances in yield and load factor. Total passenger numbers (including Aer Lingus Regional) increased by 2.0% compared to prior year. The positive revenue performance helped to offset the impact of higher fuel and airport charges. In addition, Q3 2012 was impacted by the Olympic Games in London. For the duration of the Olympic Games, there was a reduced level of business demand on the Group's key London routes.

Therefore revenue growth could not fully absorb higher costs, in particular higher fuel costs, leading to a 2.9% decline in operating profit compared to Q3 2011. Nonetheless, given the various challenges in the operating environment and upward cost pressure, the Q3 outcome represents a strong performance for the quarter with Aer Lingus still achieving one of the highest operating margins in the European industry.

### Revenue

Total Q3 revenue increased by 5.7% compared with prior year. This performance compares favourably against total capacity deployment, as measured through Available Seat Kilometres ("ASKs"), which decreased by 0.6% due to the introduction of A319s into the short haul fleet.

#### *Short haul passenger revenues*

Short haul passenger fare revenues increased by 2.8% to €275.9 million in Q3 2012. An increase of 4.1% in short haul passenger yield and a 1.3 point increase in load factor offset a reduction in capacity of 1.4% and a reduction in mainline (i.e. excluding Aer Lingus Regional) short haul passenger numbers. Total short haul passengers however, including Aer Lingus Regional services, increased by 1.8% compared to 2011. The combination of growth in yield and load factor resulted in revenue per short haul seat increasing 4.8% to €84.40 in Q3 2012 compared to €80.50 in Q3 2011.

Routes to Spain, Germany, Italy and Portugal performed strongly during the traditional holiday months of Q3 2012. However the UK market was weaker due to the negative impact of the London Olympics on trading.

Capacity reduction is a result of more effective network management and better utilisation of the aircraft fleet as opposed to cancellation of services. This has been helped by the introduction of two A319 aircraft into the fleet in Q1 2012 to replace two higher capacity A320 aircraft, one of which exited the fleet in June 2012 and the second in August 2012.

### *Long haul passenger revenues*

Long haul passenger fare revenues increased by 16.3% to €116.8 million in Q3 2012. The performance was driven by a 4.2% increase in passenger numbers, an 11.5% increase in yield and a 2.3 point increase in load factor. The load factor increase was achieved in addition to an increase of 1.1% in capacity. Revenue per long haul seat increased by 14.2% to €356.90 from €312.60 in 2011.

Long haul revenue growth was helped in Q3 2012 by the “Emerald Isle” college football game between Navy and Notre Dame that was played in Dublin in September and which attracted a significant number of American visitors to the country.

Business class revenues continued to perform strongly in the quarter, representing 18% of total long haul passenger fares, in line with the prior year. Overall the strong long haul performance achieved in the quarter has been driven by positive market dynamics on the North Atlantic and an increased proportion of sales in the USA.

### *Retail revenue*

Retail revenue per passenger was €18.11 in Q3 2012 which is broadly in line with the €18.26 achieved in Q3 2011. Retail revenue continues to be a significant area of focus for Aer Lingus and a number of new products and initiatives are in development to grow this revenue source.

### **Operating expenses**

Overall, operating expenses increased by 8.1% compared to Q3 2011, driven by significant inflation in fuel and airport charges.

Q3 2012 fuel costs increased by 27.7% in euro terms compared to Q3 2011 reflecting the impact of both fuel price increases and FX. The average fuel cost per tonne in Q3 2012 (excluding into-plane costs) was US\$1,001 compared to US\$900 in Q3 2011. In addition, the average US\$ exchange rate strengthened from US\$1.41 in Q3 2011 to US\$1.25 in Q3 2012, although this impact was partly mitigated by the Group’s currency hedging programme. The combined effect of the increased fuel price and FX movement was to increase the average euro cost of fuel (excluding into-plane costs) from €626 in Q3 2011 to €805 per metric tonne in Q3 2012.

Staff costs increased marginally by 1.0% on prior year. The increase is driven by a higher level of FTEs in Q3 2012 compared to prior year.

The 2.0% increase in other operating costs includes an 8.1% increase in airport charges (mainly reflecting price increases, in particular at Spanish airports) and a 9.7% increase in aircraft lease costs (driven by unfavourable FX movements on the EUR/US\$ rate). These increases are offset by an 11.1% reduction in overhead costs and gains recorded on FX hedging reflecting the partial protection afforded by the Group’s hedging programme against a strengthening US\$.

### **Exceptional items**

Aer Lingus incurred €4.9 million of exceptional items in Q3 2012 compared to €0.1 million in Q3 2011. The Q3 2012 cost includes €2.3 million of advisory, legal and other fees related to Ryanair’s offer for the Group and €2.3 million of redundancy and other restructuring costs.

## **Review – Year to date September 2012**

### **Overview**

Aer Lingus’ year to date operating profit, before exceptional items, of €86.5 million represents a 29.7% improvement over prior year and reflects a strong trading performance, particularly in terms of yield and avoidable cost control. The year to date result has also benefited from the non-recurrence of industrial action which significantly disrupted operations in Q1 2011 and is estimated to have cost approximately €15 million in lost revenue and additional costs last year.

## **Revenue**

### *Short haul passenger revenues*

Year to date short haul passenger fare revenues increased by 4.7% to €644.7 million. The average short haul yield per passenger increased by 3.6%. Total flown short haul passengers (including Aer Lingus Regional) increased by 3.6% compared to prior year. Short haul load factor for the first 9 months of 2012 increased by 1.3 points on 2011. Short haul capacity remained flat year on year. Short haul revenue per seat increased by 4.1% to €70.70 compared to €67.90 in 2011.

UK routes have been relatively weaker year to date compared to prior year however core European routes such as those to Spain, Italy, Portugal and Germany have performed strongly in the nine months to September 2012.

### *Long haul passenger revenues*

Long haul revenue for the year to September increased by 18.9% to €260.9 million driven by a 9.9% increase in long haul yield per passenger and an 8.1% increase in passengers. Long haul capacity deployment for the first nine months of 2012 (as measured by ASKs) increased by 2.6% and long haul load factor increased by 4.0 points on prior year. The business cabin continued to contribute to a strong long haul revenue performance, representing 21% of total long haul revenue in the nine months to 30 September 2012. Long haul revenue per seat of €294.80 was 15.4% ahead of prior year partly attributable to positive FX effects on sales, over 60% of which now originate from the US market.

### *Bookings*

As at 30 September 2012, total forward passenger fare bookings (net of associated taxes and charges) were ahead of the forward passenger fare bookings at 30 September 2011.

### *Retail revenue*

Retail revenue per passenger increased by 3.0% from €17.96 to €18.50 in the nine months to September 2012 with total retail revenue increasing by 4.8%. This increase has been driven by new "fare family" options, the positive impact of the new "Sky Deli" in-flight menu and an increase in on-line booking fee income largely driven by the full year impact of higher per sector fees introduced in April 2011. The most significant components of retail revenue continue to be onboard sales revenues, baggage fees, on-line booking fees and seat selection fees.

## **Operating expenses**

For the first nine months of 2012, total operating expenses have increased by 6.7% compared to 2011.

Year to date fuel costs in euro terms increased by 28.8% or €61.5 million compared with prior year. The average fuel cost per metric tonne (excluding into-plane fees) for the nine months to September 2012 was US\$989 compared to US\$846 for the same period in 2011. The increase in fuel cost also reflects a 1.0% increase in volume and a stronger US\$ exchange rate over the first nine months of 2012 compared to 2011 (i.e. US\$1.28 in 2012 YTD versus US\$1.41 in 2011).

Staff costs increased by 2.9% year on year driven by a higher level of FTEs in 2012 in response to recruitment required to support increased activity across the business.

Airport charges increased by 8.1% compared to prior year, driven largely by price increases applied in 2012, notably at Spanish airports, and also due to unfavourable FX movements on charges incurred in GBP and US\$.

## **Exceptional items**

Aer Lingus incurred €24.7 million of exceptional costs in the nine months to 30 September 2012. This includes €13.9 million for restructuring costs (including the restructuring of maintenance operations at Shannon airport base), and €3.9 million relating to adjustments in the value of assets. This includes an additional write down in value of the A320 which continues to be held for sale. Exceptional items year to date also include an amount of €6.6 million for advisory, legal and other fees incurred in respect of the Ryanair offer for the Group announced on 19 June 2012.

## Fuel & Currency Hedging

### Fuel Hedging

As at 30 September 2012, Aer Lingus had hedged 96% of its forecast Q4 2012 fuel requirements at an average of US\$994 per metric tonne. 49% of total 2013 fuel requirements are hedged at US\$995 per metric tonne. A summary of the quarterly fuel hedging position for the remainder of 2012 and for 2013 is:

Fuel	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Full yr 2013
Estimated burn ('000 metric tonnes)	101	89	126	130	103	448
% hedged	96%	74%	55%	41%	30%	49%
Avg. hedged price/MT (US\$)	994	1,013	1,003	989	951	995

As at 30 September 2012, forward fuel prices for 2013 range from US\$1,033 per tonne for January 2013 to US\$1,000 per tonne for December 2013. The weighted average hedged price per metric tonne of US\$995 for 2013 is 1.5% higher than the equivalent figure for the nine months to 30 September 2012 (US\$980).

### Currency Hedging

As at 30 September 2012, 95% of the estimated US\$ trading requirement for Q4 2012 was hedged at an average rate of US\$1.41. In the nine months to 30 September 2012, the average actual US\$/EUR FX rate was US\$1.28, compared to an averaged hedged rate of US\$1.40. Aer Lingus is structurally short US\$ in any financial year. This is due to the fact that US\$ revenue (estimated at 50% of long haul revenue) would typically not fully cover significant US\$ denominated costs incurred (for example fuel, aircraft hire and certain airport charges and maintenance costs). At 30 September 2012, Aer Lingus had hedged US\$117 million in respect of the estimated US\$ trading requirements for 2013 at an average rate of US\$1.35.

## Greenfield Cost Reduction Programme Progress

At the end of September 2012, the Group had achieved total "Greenfield" cost savings with an annual value of €100.5 million. In spite of the achievement of cost savings which exceed the Group's target of €97 million for the "Greenfield" programme, management's focus on cost saving initiatives continues given the increasingly competitive environment and broader macro-economic challenges.

€m	Annual value of savings achieved at end of 2011	New savings achieved in 2012	As at September 2012
Staff	55.7	6.5	62.2
Non-staff	28.6	9.7	38.3
<b>Total</b>	<b>84.3</b>	<b>16.2</b>	<b>100.5</b>

## Financial Position

Aer Lingus' gross cash at 30 September 2012 was €990.8 million, €63.5 million up on prior year after allowing for a €16.0 million dividend payment in Q3 2012. The €59.1 million decrease in gross cash compared to June 2012 is primarily attributed to the normal seasonal trading and working capital cycle. The Group also incurred net capex of €11.3 million, finance lease repayments of €12.4 million and unfavourable FX movements on cash positions of €12.6m in the quarter.

Gross debt decreased by €22.5 million since June 2012 to €549.7 million as at 30 September 2012. This decrease was primarily due to €12.0 million of favourable FX movements in the quarter and €12.4 million of finance lease repayments as noted above.

## Capital Reduction

The Court hearing relating to Aer Lingus Group plc's proposed capital reduction has been adjourned to 11 December 2012.

## Recent commercial developments

Aer Lingus continues to pursue its growth strategy with respect to opportunities at London Heathrow Airport and has submitted a bid to operate a high frequency domestic UK service as a result of competition remedies arising from the IAG/BMI transaction. A decision as to the ranking of our application by the European Commission is expected by 15 November 2012.

Aer Lingus and Air Canada have entered into an interline agreement which is effective from 21 September 2012 and should provide a more seamless travel experience for customers between Ireland and Canada.

Competitors have recently announced plans to operate increased frequency on the Dublin to London Heathrow route from October 2012 and to introduce long haul services from Dublin and Shannon to US destinations currently served by Aer Lingus from June 2013. These developments will lead to an increased level of competition for Aer Lingus from the Winter 2012/2013 and Summer 2013 seasons.

The enhanced codeshare between Aer Lingus and United Airlines for the operation of the Washington/Madrid service terminated with effect from 27 October 2012. This decision does not affect the ongoing codeshare partnership with United Airlines on the Group's transatlantic flights and United Airlines' domestic US flights. The aircraft used for the enhanced codeshare operation will be redeployed in the Aer Lingus route network for the 2013 Summer schedule thereby increasing our long haul capacity.

## Ryanair Offer

Ryanair indicated its intention to bid for the Group in June and launched a formal offer for Aer Lingus on 17 July 2012.

The Board of Aer Lingus unanimously recommended that shareholders reject that Ryanair offer by taking no action and wrote to shareholders on 31 July and 24 August 2012, respectively, to set out in detail its reasons for rejecting that offer.

On 29 August, the European Commission announced its decision to open an investigation into Ryanair's latest offer to acquire control of Aer Lingus, causing Ryanair's offer to lapse. This investigation is currently ongoing and Aer Lingus remains subject to the provisions of the Irish Takeover Code in the interim. As a consequence, this Interim Management Statement ("IMS") does not contain an outlook statement.

A decision is expected from the European Commission in the first quarter of 2013. In addition, the UK Competition Commission also continues to investigate the effects of Ryanair's minority shareholding in Aer Lingus. Ryanair is challenging the legitimacy of the Competition Commission's investigation in the UK Courts.

## Pension Matters

There are no updates since the market announcement issued on 31 October 2012. Further updates will be provided if and when appropriate.

## Aer Lingus operating metrics (un-audited)

	Three Months Ended 30 September			Nine Months Ended 30 September		
	2012	2011	Change	2012	2011	Change
<b>Passengers carried ('000s) *</b>						
Short haul	2,641	2,672	(1.2%)	6,718	6,645	1.1%
Long haul	298	286	4.2%	731	676	8.1%
<b>Total</b>	<b>2,939</b>	<b>2,958</b>	<b>(0.6%)</b>	<b>7,449</b>	<b>7,321</b>	<b>1.8%</b>
<b>Revenue Passenger Kilometres (RPKs) (million) *</b>						
Short haul	3,045	3,038	0.2%	7,416	7,276	1.9%
Long haul	1,552	1,496	3.7%	3,828	3,555	7.7%
<b>Total</b>	<b>4,597</b>	<b>4,534</b>	<b>1.4%</b>	<b>11,244</b>	<b>10,831</b>	<b>3.8%</b>
<b>Available Seat Kilometres (ASKs) (million)</b>						
Short haul	3,637	3,689	(1.4%)	9,727	9,718	0.1%
Long haul	1,700	1,681	1.1%	4,637	4,521	2.6%
<b>Total</b>	<b>5,337</b>	<b>5,370</b>	<b>(0.6%)</b>	<b>14,364</b>	<b>14,239</b>	<b>0.9%</b>
<b>Passenger load factor (flown RPKs per ASKs) *</b>						
Short haul	83.7%	82.4%	1.3 pts	76.2%	74.9%	1.3 pts
Long haul	91.3%	89.0%	2.3 pts	82.6%	78.6%	4.0 pts
<b>Total</b>	<b>86.1%</b>	<b>84.4%</b>	<b>1.7 pts</b>	<b>78.3%</b>	<b>76.1%</b>	<b>2.2 pts</b>
<b>Average yield per passenger (€)</b>						
Short haul	104.49	100.41	4.1%	95.96	92.66	3.6%
Long haul	391.42	351.05	11.5%	357.02	324.86	9.9%
<b>Total</b>	<b>133.59</b>	<b>124.65</b>	<b>7.2%</b>	<b>121.57</b>	<b>114.10</b>	<b>6.6%</b>
Retail revenue per passenger (€)	18.11	18.26	(0.8%)	18.50	17.96	3.0%
Aer Lingus Regional passengers carried ('000)	306	222	37.8%	752	563	33.6%

\* 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.

**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.