

Aviation Club Lunch 17 April Speaker notes

Ladies and gentlemen

I am delighted to have been invited to speak to you today and to share with you some of our experiences and aspirations for Aer Lingus in this our 50th year flying on the transatlantic.

I would like to firstly thank President Ms Joanne Young and the International Aviation Club for extending your very kind invitation to Aer Lingus. I would also like to acknowledge and welcome a member of our Board, Mr Tom Corcoran who is able to join us today. I am also joined by our VP Customer Service North America, Kevin Reichart.

Yes indeed, on a spring evening on the 28th April 1958 a Lockheed L1049 Super Constellation rose from New York's Idlewild airport, currently known as JFK, on its inaugural flight to Ireland.

In those 50 years, Aer Lingus has thrived and has become the most successful flag carrier in Europe by re-inventing itself into a Low Cost operator on Short Haul.

The US market has been a very important part of the Aer Lingus story and it is an aviation market that has changed beyond recognition in recent years as deregulation has borne a multitude of new carriers and new relationships.

It is particularly interesting to watch it from a country like Ireland, which one might say, is a model for the positive impact of deregulation. Ireland is home to two of Europe's leading and most profitable low cost carriers and yet has the population of less than 5million.

Historically, Aer Lingus' ability to expand operations on US routes was constrained for many years by the then bilateral deal between Ireland and US.

Open skies

Following the announcement of the momentous Open skies agreement in March of last year Aer Lingus was first into the field launching new direct services to Washington, San Francisco and Orlando and increased direct services between Dublin and Shannon and existing gateways.

The Open skies deal provides EI with tremendous opportunities to grow our Long Haul network as we can tap into the very significant US market for Business and Leisure customers.

Its worth pointing out that in the first three months of 2008 Aer Lingus' long haul traffic increased by 13.4% while BA and AA have increased by no more than 3%. This shows how well positioned Aer Lingus is when, even in a very tough market, we can grow our volumes.

I would like to take this opportunity to thank the U.S. aviation team, including John Byerly and his team at the Department of State, and Paul Gretch, Mary Street and others at the Department of Transportation, for their tireless efforts in making the E.U.-U.S. Open Skies arrangement a reality and we wish them continued success as they prepare for next month's negotiations on the second phase of the Agreement.

I would also like to thank Andy Steinberg, Mike Reynolds, Susan McDermott and others at, or formerly at, the Department of Transportation for their hard work in implementing the Open Skies Agreement. Aer Lingus looks forward to

working with DOT in the future as we continue to expand our presence on the North Atlantic

I would like to acknowledge the important role our own Embassy played in the agreement, in particular Former Ambassador Fahey and Tim Doyle who I am delighted to see here today

LHR slots and Belfast Base

Much of the attention on Open Skies has focused on London Heathrow Airport. With 23 slot pairs per day, Aer Lingus is the fourth largest holder of slots at the airport and there has been a lot of commentary of the value of these slots in the current climate.

These slots underpin a very profitable operation between London and Ireland and we have no current plans to redeploy.

But that is not to say we are satisfied with the status quo. Aer Lingus became a public company in October 2006 is not afraid to make tough commercial calls. In August 2007 we took the decision to open our first base outside the Republic of Ireland, at Belfast, with three A320 aircraft and 10 new routes.

A key part of this route portfolio was the need for an operation to Heathrow, which involved redeploying slots from Shannon.

The new base gives us huge possibilities to access new markets and new revenue and passenger flows, especially as Northern Ireland benefits from the Peace Dividend like never before.

At the same time Aer Lingus remains firmly committed to long haul operations from Shannon even in the aftermath of Open Skies.

Alliance – tough decisions

Another key decision we took in recent times was to exit the oneworld alliance. I believe Aer Lingus is the only major former National carrier to leave one of the major alliances.

Overall we feel that our best strategic interests lie in following an independent path and opportunistically linking with other carriers where we see a good fit and where it makes good commercial sense to do so.

It is a position that I have some experience of with my former career at Emirates in Dubai where the view was that membership of an alliance might not contribute towards the airlines own objectives, but could well constrain its very development.

New partnerships

In a development that marked a new phase in airline-to-airline relationships, last week we launched for sale an industry-first strategic partnership with Jetblue and I'm delighted to see Rob Land from Jetblue here today.

This partnership will enable Irish and U.S. customers to book a single low fare ticket on aerlingus.com between Ireland and over 40 continental U.S. destinations, connecting through JetBlue's home base at New York's John F. Kennedy International Airport. This innovation was developed by Aer Lingus and illustrates the advantages and strengths our own website aerlingus.com can offer us.

Also last week in Chicago, we announced a new codeshare with United Airlines and I'm delighted to see Michael Whitaker and his team from United here today.

This codeshare agreement will cover all seven of Aer Lingus' US gateways resulting in significant benefits for Aer Lingus customers, by providing access to over 200 additional destinations in the US market on the United Airlines network

US customers will also benefit from greater access to destinations in Ireland and, through Aer Lingus' extensive short-haul network, to destinations in the UK and Continental Europe.

We believe that this agreement will strengthen our position in the US market as we capitalise on the scale and the strength of the United Airlines network.

Fleet

On fleet too we have made progress in recent times. Just last week our shareholders approved a deal to purchase 6 Airbus A330 Enhanced and 6 A350 XWB aircraft following an intensive tender process.

Historically, Aer Lingus has had a relationship with both Airbus and Boeing and despite our decision on the recent fleet order, I'm confident we can maintain a healthy relationship both suppliers for opportunities which may come along in the future.

Environment

Aer Lingus is committed to protecting the environment and it is the cornerstone of its own policy of operating a fleet of the most fuel and carbon efficient aircraft we can find.

Unfortunately there is still a public misperception that our industry is “the bad boy” of the climate change and carbon emission debate – We are not!

However, airlines also have to look at how we engage with stakeholders to address concerns about the aviation industry's environment impact.

The EU Emission Trading scheme will have a significant financial impact on airlines in general and we have a view that that the folks at the EU may be getting a little ahead of themselves in this regard.

To our knowledge there are no such regulations planned for carriers operating outside the EU and I believe that until something is put in place on a worldwide basis, perhaps under the auspices of ICAO, there will be an inherent inequity in how the issue is to be addressed.

From what we understand about how the emissions credits are to be charged, it's likely that there will be a very real material hit in terms of cost to EU carriers. This could well result in competitive issues with carriers from other jurisdictions. It is a debate that Aer Lingus is becoming more and more involved in

Innovation – Ancillary Revenue

One of our most significant achievements in recent times has been our website aerlingus.com and its continuing ability to be an engine of innovation for the company and now represents 73% of our world wide sales.

I have already mentioned the Jet Blue link up via the web, however in recent times the website has been a platform for driving what we call ancillary revenue in addition to passenger bookings.

Last year we made a strategic decision to drive still lower fares on short haul by charging for checked baggage.

I can tell you it was a decision that we agonized over for a long time. We invested a huge amount of time into the implementation of the charge in particular to make payment as simple and efficient as possible.

In the end it really paid off. Customers can now pay online either when they are making their booking or they can come back online later and pay.

If they show up at the airport without having paid, they can still pay using our self-service kiosks. 60% of our customers prepay online and we have had virtually no negativity or pushback.

Initiatives to drive efficiency never stop and our latest idea is a combined self-service kiosk and automated Bag drop, which will be piloted in the summer. Customers will be able to check in and drop off their own bag in one place, which should mean less queuing and a more streamlined customer journey through the airport.

T2

This initiative will be trialled this summer with a view to its full deployment at the new terminal 2 at Dublin, which is scheduled to be opened in early 2010. Dublin is an airport that has seen massive growth in recent times and is badly in need of significantly increased terminal capacity.

Facilities are constrained and I've no doubt when the time comes "T2" will have its own teething problems.

However we fully support T2 and we believe that it will allow us to grow from Dublin on both long haul and short haul and even help link the two together!

Let me explain. Aer Lingus currently operate over 90 short haul routes and 7 long haul routes. While these networks are separately scheduled and targeted to deliver profit, we have observed traffic flows between them. To drive this further we have developed a means of offering customers a single low fare price between 17 European points and our 7 US gateways on our website.

Promoted through very cost effective “pay per click” online advertising we are looking to harness these European points, most of whom don’t have direct services or else a very weak incumbent, to deliver new business to our Long haul operations

The new terminal at Dublin will be able to facilitate this with a “fit for purpose” transfer facility. Overall T2 will mean a much more comfortable and spacious facility and will allow Dublin to grow into the future.

CBP

For many years one of the unique selling points of travel from Ireland to the US has been the US Immigration facilities (INS) at both Dublin and Shannon. This, of course means that all passengers are processed at either Dublin or Shannon so that on arrival in the US, they can go straight through to the baggage hall without further processing.

One of the challenges facing all airlines using Dublin and Shannon airports is the proposal to upgrade the current facilities to include Customs, (the so-called Custom and Border Protection or CBP). This is being built into the infrastructure of the new Terminal 2 at Dublin.

CBP presents us with particular challenges. We may well be constrained from selling duty free onboard as customers will have been deemed to have already passed through customs by the time they board the flight.

There will be an increased cost for the facility and we understand that we may still have to bear the costs at the US airport for customs facilities even though they will have been provided in Ireland.

On the plus side, an efficiently run CBP facility at a price that makes sense to the user will significantly improve the overall passenger experience and facilitate the development of long haul traffic at Dublin and Shannon airports.

While we are working with the Irish and US authorities to clarify and address some of issues we understand negotiations between the respective governmental agencies are proceeding and we wish them well in their endeavours

Outlook

I think it is clear that all airlines are operating in challenging times and Aer Lingus is no exception. With currency weaknesses, soaring oil prices and fears of recession in major markets in 2008 it is critical that we can continue to offer customers low fares and in so doing remain relevant in our chosen markets.

We have set ourselves challenging targets for 2008, however we have a robust business model and have proven ourselves a strong competitor in all markets. Open Skies offers us new opportunities for growth while our continued focus on costs will underpin our overall performance.