Irish Airlines

SUPERANNUATION SCHEMES

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Irish Airlines (General Employees) Superannuation Scheme

Communication to all Scheme Members

I am writing to update you on recent developments in what has been a very difficult period for pension schemes.

The Triennial Actuarial Valuation of the assets and liabilities of the Scheme was completed by the Actuary, Michael Madden, as at 31 March 2011. The purpose of the Valuation is to ensure that there are sufficient assets available to meet future benefit payments as they fall due. Not surprisingly the Valuation has disclosed a significant deficit – in the range of €400m to €500m depending on how the Actuary treats future co-ordination.

It is also necessary for the Scheme to satisfy the Minimum Funding Standard on an annual basis. The purpose of the Standard is to check that there would be sufficient assets available as at the date of calculation in the event that the Scheme was wound up on this date to purchase annuities for pensions in the course of payment, and to provide the value of accrued benefits for active and deferred members; the basis of calculation is determined by legislation. Regrettably the Scheme was also unable to meet the Minimum Funding Standard on 31 March and it will be necessary to submit a Funding Proposal to the Pensions Board to address the deficit. We expect that the Pensions Board will shortly announce new deadlines for submission of such proposals.

The challenges, therefore, for the Trustees are to have the deficit on the long term actuarial funding basis addressed and to ensure that the Scheme satisfies the Minimum Funding Standard test on an ongoing basis. This can only be done through securing increased contributions or reducing benefits, or a combination of both. The Trustees have been discussing these issues with the employers and the trade unions on an informal basis and have been keeping in touch with the pension discussions which have been taking place between the employers and unions on pension provision at the Labour Relations Commission. The Trustees are now entering into formal discussions with the employers to address the deficits and we expect that the employers in turn will discuss possible changes with the unions. To support these discussions we have made a presentation to the employers and the unions on the preliminary results of the Valuation and the Minimum Funding Standard calculations.

Investment markets are going through a period of unprecedented volatility and the outlook for the immediate future is very uncertain. In the short term this has had a negative impact on the solvency of the Scheme with the result that the deficit is significantly larger than as at the date of the Valuation (31 March last). The Trustees are also considering arrangements to reduce the volatility and risk within the Scheme by arranging a better match between assets and liabilities, which is likely to mean a greater investment in bonds and a wider spread of other assets.

Members will be aware that the Irish Government recently introduced the Pension Levy, payable at the rate of 0.6% of pension scheme assets, to fund their Job Initiative. This levy will cost your Scheme €8.5m in the current year, with similar amounts payable in each of the following three years. The Trustees regret that the Government did not heed the well presented arguments that funding the Job Initiative in this way was not appropriate due to the solvency position of pension schemes generally.

You may be aware of suggestions that Trustees should fund a constitutional challenge to the Levy. However, the advice is that such a challenge is unlikely to be successful and hence Trustees could not justify putting any of the fund's assets at risk, especially as the costs involved would be very substantial.

The Trustees have asked the employers if they would meet the cost of the levy, particularly in view of the financial position of the Scheme and are awaiting their response. If the employers do not agree to meet the cost it is likely that the Trustees will be required to reduce the benefits – pension payments in the case of pensioners and accrued benefits in the case of active and deferred members.

Members who participate in the Supplementary Personal Pension Plan have had the levy deducted by Irish Life by way of a reduction in their investment holding, which will be reflected in their next benefit statement.

You will also be aware that member representatives on the Superannuation Committee, which has the role of providing advice to the Trustees, were recently appointed for a new three year term. The appointment did not require an election as there were only four candidates nominated for four positions.

The present arrangements for managing the Scheme have been in place since the 1950s, with some amendments in the 1970's. The Trustees consider it appropriate that these arrangements should be reviewed in the light of best current practice, which would include reviewing the nomination and election process for the Superannuation Committee. Accordingly it is proposed to enter into discussions with the employers on future governance arrangements as part of the restructuring which will be required to address the deficits noted above.

We appreciate it is a difficult time for the members of pension schemes who are concerned about the security of their benefits. The Trustees are committed to working with the sponsoring employers and with the other stakeholders to manage the challenge and we will keep you advised of developments.

Yours sincerely

Brian Duncan
Chairman

September 2011

Notes to the consolidated financial statements *(continued)*

29 Pensions and other post employment benefits *(continued)*

The rules of the Irish Pension Schemes provide for the following in the event that there is an actuarial surplus or deficiency in the schemes:

Surplus

If an actuarial valuation discloses a surplus, it shall be applied by the trustees, after consultation with the Actuary, for the purpose of increasing the benefits to members or reducing the rate of contribution by the employers and/or members.

Deficiency

If an actuarial valuation discloses a deficiency, the trustees shall take such measures as they think appropriate, having regard to the recommendations of the Actuary, to remedy any such actual or anticipated deficiency provided that no such measures shall, without the consent of the employers, make provision for payment of any increased contribution by the employers, or, without the consent of the members make provision for the payment of any increase contribution by the members.

The costs and liabilities of the schemes are assessed in accordance with the advice of a professionally qualified actuary. The most recent actuarial review was carried out at 31 March 2010.

As the group contribution rate is entirely independent of the Irish Pension Schemes' funding level, the value of the Irish Pension Schemes' assets and liabilities are not relevant in the context of reporting under IAS 19 *Employee Benefits*.

The Group's contributions charged for the year were €18.3m (2009: €24.9m), based on rates specified by the scheme rules.

At the time of the IPO, the Group reached agreement with the trade unions representing the majority of staff to establish two supplemental funds. The purpose of the supplemental funds is to seek to provide, insofar as available funds permit and subject to their trustees' discretion, increases to pensions in payment for those members of the Main Scheme who are also participants in the supplemental funds where the trustees of the Main Scheme do not grant increases to pensions in payment in line with rises in the Consumer Price Index.

In 2007, the Group made a once off contribution of €104.0m from the IPO proceeds to these funds. The Group and current eligible employees who have opted to become members of the funds also pay ongoing annual contributions. As is the case with the Main Scheme, the two supplemental funds were established on the basis that neither the Group nor a participating employee can be obliged to pay more than the specified contribution to the funds without their written consent.

30 Financial commitments

(a) Capital commitments

At 31 December the Group had capital commitments as follows:

	2010	2009
	€'000	€'000
Contracted for but not provided		
- Aircraft and equipment	902,511	889,012
- Other	928	1,830
	903,439	890,842

27 Share premium, capital conversion reserve fund, capital redemption reserve fund and other reserves *(continued)*

Share awards

On 8 September 2009, Mr Christoph Mueller was granted share awards in respect of 500,000 shares, with a vesting date of 1 September 2011. The share price at grant date was €0.58. The share awards granted are equity settled share-based payments as defined in IFRS 2 Share-based Payments and accordingly the cost of settling the awards has been expensed on a pro-rata basis across the vesting period. An expense of €192,531 (2009: €Nil) has been recorded in the income statement in 2010.

Impact on statement of financial position

ALG Trustees Limited (the "Trust") was retained during the year to manage the LTIP. The Trust purchased 2,396,959 shares in May 2008 at a cost of €4,862,133. The Trust purchased a further 152,709 shares in April 2009 at a cost of €116,450 and 5,690,969 at a cost of €4,041,726. In September 2009 the Trust sold 5,605,347 shares to the Company for nil consideration. As at 31 December 2010, the Trust held 4,446,658 ordinary shares. There were no new shares issued to the trust during the year.

The Trust is consolidated in the Group accounts and these shares are accounted for as treasury shares in the consolidated statement of financial position.

28 Employee participation

Employee Share Ownership Trust ("ESOT")

In December 2010, the Group made a once-off cash payment of €25.3 million to the ESOT. This transaction fully extinguished the ESOT's borrowings and, with it, the Group's obligation to pay any further share of profits to the ESOT. As a result, approximately 62.5 million shares held by the ESOT have now transferred to the direct ownership of current and former employees. Approximately 4.1 million shares will transfer in due course to non-Irish resident beneficiaries.

The profit share obligation, established at the time of the Group's initial public offering in 2006, required the Group to pay an annual share of profits to the Aer Lingus Employee Share Ownership Trust ("ESOT" or the "Trust") until the later of April 2023 and the full repayment of the ESOT's debt and associated interest.

The ESOT held 0.76% of the issued share capital of the Company at 31 December 2010 as at 31 December 2010 (31 December 2009: 12.47%).

The ESOT is also trustee of the Aer Lingus Approved Profit Sharing Scheme and, at 31 December 2010, held 9,004,676 shares (1.69%) (31 December 2009: 9,188,781 shares (1.72%)) in the Company on behalf of beneficiaries.

29 Pensions and other post employment benefits

The Group operates a number of externally funded pension schemes for the majority of its employees. The Irish Pension Schemes meet the definition of defined benefit schemes under the terms of the Pensions Act 1990. One of the Irish Pension Schemes, the Irish Airline (General Employees) Superannuation Scheme (the "Main Scheme") is operated in conjunction with a number of other employers.

The Group and employees contribute a fixed percentage of salaries each year to these schemes, which does not vary according to the funding level of the Irish Pension Schemes, accordingly the group accounts for these schemes as defined contribution arrangements.