

**Aer Lingus**   
1936-2011 *Doesn't time fly?*

Annual Report 2010

75 years



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# Financial highlights

For the year ended 31 December 2010

		2010	2009	Change
<b>Results</b>				
Revenue	€m	1,215.6	1,205.7	0.8%
EBITDAR <sup>1</sup>	€m	196.7	57.5	242.1%
Operating profit/(loss) before net exceptional items	€m	57.6	(81.0)	(171.1%)
Net exceptional items	€m	(31.0)	(88.6)	(65.0%)
Operating profit/(loss) after net exceptional items	€m	26.6	(169.6)	(115.7%)
Net finance income	€m	6.8	14.8	(54.1%)
Income tax credit	€m	15.8	24.7	(36.0%)
Profit/(loss) for the year	€m	49.2	(130.1)	(137.8%)
Total equity	€m	802.4	704.5	13.9%
Profit/(loss) per share	€cent	9.3	(24.6)	(137.8%)
Gross cash <sup>2</sup>	€m	885.0	828.5	6.8%
<b>Key financial statistics</b>				
Passenger/ancillary revenue per RPK	€cent/RPK	8.4	7.4	13.5%
Unit cost, excluding fuel <sup>3</sup>	€cent/RPK	4.12	3.85	7.0%
Unit cost, including fuel	€cent/RPK	5.58	5.41	3.1%
EBITDAR margin	%	16.2%	4.8%	11.4pt
Operating margin	%	4.7%	(6.7%)	11.4pt
<b>Key operating statistics <sup>4</sup></b>				
Passengers carried	'000	9,346	10,382	(10.0%)
Revenue passenger kilometres (RPK)	m	13,895	15,819	(12.2%)
Available seat kilometres (ASK)	m	18,260	21,228	(14.0%)
Passenger load factor	%	76.1%	74.5%	1.6pt

- 1 Earnings before employee profit share, interest, tax, depreciation, amortisation and aircraft rentals
- 2 Gross cash is defined as loans and receivables, deposits and cash and cash equivalents
- 3 Unit cost is based on total operating costs, excluding depreciation, amortisation, aircraft rentals, employee profit share and fuel, divided by available seat kilometres
- 4 Key operating statistics related to scheduled passenger operations

# Chairman's statement

Dear fellow shareholders,

Last year in my Chairman's Statement I wrote of some of the problems facing Aer Lingus and of the measures that we were taking to overcome them. I specifically referred to the measures that we were taking to make our products more attractive to our customers, to make the Group sustainably profitable by changing our culture, our work practices and our cost base and the measures that we were taking to preserve and grow our cash. I also referred to issues relating to our shareholder base.

I am happy to report a year later that we have made significant progress on all these fronts and that these improvements will continue to benefit Aer Lingus and its shareholders into the future.

## Commercial overview

In 2010 the global airline environment was more benign than a year earlier, with IATA reporting that its member airlines experienced total passenger traffic growth of 8.2% in the year. Unfortunately Ireland did not benefit from this more benign environment and total traffic into and out of Ireland declined with Dublin Airport reporting a traffic decline of approximately 10% in 2010.

Fortunately Aer Lingus responded well to this situation and trimmed its capacity to match the demand, resulting in a 1.6 point increase in our system load factor allied to a 12.0% increase in our average fare per passenger. This demand-led approach to capacity deployment continues to generate positive results, with our focus being on maximising revenue per seat flown rather than on chasing passenger numbers. However, we continue to offer keenly priced fares in order to remain competitive with Ryanair, which is our strongest competitor on most of our European routes. Meanwhile, Aer Lingus gained market share on key routes during the last year.

In 2010, Aer Lingus' passenger offering was also improved, with greater emphasis on offering each market segment a customised

product rather than adopting a "one size fits all" approach. An example of this has been a better integration of our North Atlantic operations with our European schedules and with the US schedules of jetBlue and United Airlines so that we are now providing convenient connections to more people in more cities in both continents. Our recent move to Dublin's new state of the art Terminal 2 will improve these products even further. Our partnership with Aer Arann is another important ingredient in our improved passenger offering, allowing us to offer more connecting services from regional locations in Ireland and the United Kingdom.

We also achieved significant progress in implementing the cost reduction programme that was agreed with our employees in early 2010. We have received overwhelming support from most of our staff for these initiatives as they realise that if Aer Lingus is to provide them with a secure, vibrant and positive working environment then we must be efficient and cost competitive. Unfortunately one staff group, represented by the IMPACT trade union, decided to engage in industrial action in late 2010 and early 2011 in protest against the new rosters that were designed to achieve the agreed working conditions and productivity targets. While the issue was resolved satisfactorily, and the targets will be achieved, this negative action was damaging to the Group and its stakeholders, including their colleagues.

As a result of the initiatives described above, Aer Lingus' trading performance improved significantly in 2010. The Group has produced an operating profit before exceptional items of €57.6 million for 2010 against an operating loss of €81.0 million in the prior year. This turnaround was achieved on flat revenues in a contracting market and despite service interruptions resulting from volcanic ash and unusually severe winter weather.

I would like to express the appreciation of myself and my Board colleagues for the innovation and application shown by

management and staff in achieving this hugely improved result in what have been difficult market and operating conditions.

We have continued to focus on maintaining our balance sheet strength. At the end of 2010 Aer Lingus had a gross cash balance of €885.0 million as compared to €828.5 million a year earlier. In an industry such as ours a strong cash balance provides an airline with strength to endure any unexpected disruptions and to respond positively to any opportunities that may arise.

Despite the positive developments in 2010, we remain cautious for the current year, given the continuing weakness of the Irish economy, major increases in airport charges at Dublin and London Heathrow and recent fuel price volatility.

## Shareholders

In 2010 we made progress in reducing our share concentration among a small group of shareholders by ensuring that the block of shares held in trust on behalf of current and former employees by the Aer Lingus Employee Share Ownership Trust ("ESOT") was distributed to the individual beneficiaries. This had the effect of adding over 4,000 new shareholders to our register and of significantly increasing the free float of Aer Lingus.

The ESOT shareholding arose out of arrangements described in Aer Lingus' 2006 IPO Prospectus, whereby the ESOT held a 12.5% stake in Aer Lingus. A significant part of this shareholding was acquired with borrowed funds. These borrowed funds, and applicable interest, were to be repaid out of a profit share arrangement under which Aer Lingus was required to pay up to 7.5% of its annual profit before tax and exceptional items until the earlier of 2023 or such time as the loan and all interest were fully repaid. As a result of the recent turmoil in financial markets and the fact that no profit share had been paid in 2008 and 2009, the interest rate on the ESOT loan would have increased significantly (and to a multiple of Aer Lingus'

current deposit rates), thus increasing Aer Lingus' liability to pay profit share out of future profits.

The once-off €25.3 million payment made by Aer Lingus to the ESOT to extinguish all future profit share liabilities is less than the expected total future profit share payments and other associated costs had the profit share arrangements continued in place. The profit share arrangement represented an open ended liability for the Group. After receipt of independent financial advice, the Board concluded that payment of €25.3 million in late 2010 was in the Group's and shareholders' best interests. We also expect that the addition of these shares to the Group's free float should contribute to better liquidity in the Aer Lingus share over time.

The presence of Ryanair on our shareholder register continues to be damaging to the interests of the Group and its shareholders. Ryanair is our most significant competitor and its presence as a major shareholder continues to inhibit our ability to run the Group in the best interests of all our shareholders. It is also detrimental to the public interest.

As a result, Aer Lingus welcomes the investigation initiated by the UK Office of Fair Trading into Ryanair's shareholding under the UK's merger control legislation. Aer Lingus will continue to cooperate in full with the OFT in its ongoing investigation.

## Board

I would like to express my gratitude to all members of the Board for their support, commitment and hard work during the last year as along with management we took the difficult steps needed to address the challenges facing the Group. Their support and influence has been superb.

In December 2010, Ivor Fitzpatrick retired from the Board. Ivor had been a Board member since 2002 and was heavily involved in many of the Group's important milestones, including its financial recovery from the events of 9/11 and the successful IPO in 2006. In addition, Ivor had recently served as chairperson of the Audit Committee. I would like to acknowledge and thank Ivor for his significant contributions to Aer Lingus.

Aer Lingus is committed to corporate best practice and believes in the introduction of fresh perspectives to the Board. In this regard, Mella Frewen's agreement to join the Board as an independent, non-executive director ticks many boxes. Mella, who has been based in Brussels and involved with European Union institutions for many years, brings knowledge and experience that will be very important as we face new regulations and other EU related challenges over the coming years.

Andrew Macfarlane was appointed as Chief Financial Officer on a permanent basis in October 2010 and joined the Board as an executive director. Since joining the Group in December 2009, Andrew has made a significant impact in addressing the key financial challenges faced by Aer Lingus and will continue to provide critical input towards building the future success of the Group.

## 75th Birthday and Beyond

Aer Lingus will celebrate its 75th birthday in May 2011. Starting with a full restoration of Aer Lingus' first aircraft, the Iolar, by a group of volunteers, our people plan to celebrate this milestone in style.

In its first 75 years, Aer Lingus has made a huge contribution to Irish life, connecting our island to the rest of the world and providing opportunities for Irish people to open new horizons commercially and recreationally. In particular, during the dark economic years in Ireland, Aer Lingus maintained international connectivity and gave Irish people an outlet to experience the rest of the world. The activities of Aer Lingus and its people in advising and running airlines, particularly in developing regions, is still recognised and admired throughout the global aviation industry.

Personally, I have had the good fortune of being involved with Aer Lingus for well over half its lifespan, having joined the Group as a fresh graduate in 1968 and maintaining my connection throughout the last 43 years as an employee, a very frequent customer and now as a Board member. My reasons for joining Aer Lingus those many years ago were because the Group was then one of the few Irish companies that had an international perspective and which gave Irish people an opportunity to

engage in international business while living in Ireland. My business life since then has been hugely influenced by Aer Lingus' initiative in forming one of the world's first major aircraft leasing companies with one of its most successful alumni, the late Tony Ryan. It is a fitting memorial to this initiative that today the majority of the world's aircraft leasing companies are headquartered in Ireland. I know that there are many other Aer Lingus alumni who have had similar and positive life experiences arising from their association with the Group.

There is much to be proud of when we look back. The Aer Lingus tradition of superior service, operational excellence and the best Irish hospitality is one of which we can all feel proud. The success of Aer Lingus and the appeal of its brand are due to many people, particularly those current and past employees who have shown huge loyalty to the Group over many years. They are due great credit.

As a listed entity, our role and objectives have changed in recent years, but our strengths and core values remain the same. We will continue to strive to provide an attractive and affordable range of products for our customers, a stable and vibrant working environment for our employees and an attractive investment proposition for our shareholders. Our ability to do this will be enhanced by the loyalty of our staff, our successful business model, our modern and efficient Airbus fleet and one of the strongest airline balance sheets in Europe.

I believe that Aer Lingus has a bright and successful future. The Group's proud heritage as *Ireland's airline* along with the continual pursuit of commercial innovations and improved efficiencies will be the foundations of this success. I expect that over time these factors will converge to the benefit of all our significant stakeholders – our customers, our employees and our shareholders.

Sincerely,

**Colm Barrington**  
Chairman

25 March 2011

# Chief Executive Officer's review

Dear fellow shareholders,

2010 was my first full year as CEO of Aer Lingus and it has been a year of both challenges and successes.

At first glance, 2010 appears to have been a particularly difficult year for Aer Lingus. Our operations were impacted at various times during the year by snow, ash and several airspace closures. European air traffic was severely disrupted in the first half of 2010 by the volcanic eruption in Iceland. In addition, the heavy snowfalls experienced in late 2010 significantly impacted our operations as we approached the crucial Christmas period.

We continued to experience difficult economic conditions in our key Irish market. Unemployment remains high at approximately 15% and passenger numbers in Dublin Airport declined by approximately 10% in 2010. In addition, the economic and financial uncertainty experienced in the second half of 2010 also took a toll on our bookings.

However, the story of 2010 should not focus solely on these difficulties. 2010 was the year in which Aer Lingus showed how it could respond to these headwinds and demonstrate the true calibre of its people and operations.

Most significantly, Aer Lingus returned to profitability in 2010 following 2 years of operating losses with an operating profit (before exceptional items) of €57.6 million for the year.

It was gratifying to see that the corrective actions which Aer Lingus initiated in 2009 have delivered results in 2010.

## Cost reduction programme

The continuing implementation of the Cost Reduction Programme was a key management objective in 2010 and I am satisfied to say that we made solid progress since work initially started on the Programme in 2009. Although the Group experienced a slight delay in implementing parts of this Programme, it still achieved annualised staff and non-staff cost savings of €50.0 million and €3.9 million, respectively.

We are very appreciative of the support we received from our staff and their representatives, which has enabled us to deliver the targeted savings for 2010.

Aer Lingus remains committed to generating total savings with an annual value of €97 million.

## Shannon services

Aer Lingus remains committed to maintaining transatlantic flights from Shannon, where the airline has long operated services. However, the long haul winter element of these services have been loss making for several years and, in 2010, reached a point where they threatened the viability of the entire Shannon operation.

It was for this reason that management took decisive action to address the loss making element of these services in order to ensure the continuation of transatlantic flights to and from Shannon for the remainder of the year.

We continue to build our network from Shannon airport and now provide the Shannon region with a total of 8 destinations from Shannon airport including new services to both Paris and London Gatwick.

## Progress in 2010

Our progress during 2010 was not just about managing costs and reducing losses. During the year, we also took some important steps in the ongoing commercial and operational evolution of Aer Lingus.

We have now fully transferred our operations from Terminal 1, which has been our home for the past 38 years at Dublin, to Terminal 2. This move will help raise our already high standards of service to new heights and will provide a new home for Aer Lingus in Dublin for the next 50 years and beyond. The Aer Lingus brand is rooted in friendliness, innovation and professionalism and Terminal 2 is a perfect fit with these values.

We have completely refurbished our Gold Circle lounges in both Dublin Airport's Terminal 2 and London Heathrow. The re-design draws on Aer Lingus' Irish heritage in a contemporary style. The lounge's service offering has also been enhanced with improved catering and internet connectivity for Gold Circle members.

Aer Lingus also improved its relationships with existing partners in 2010. We established a new and successful Aer Lingus Regional franchise concept with Aer Arann in March 2010. We have stood with our partner despite the difficulties that they experienced during 2010 and we are satisfied that the franchise agreement continues to provide mutual benefits for both parties as well as significantly improving connectivity for our passengers.

The agreement with Aer Arann significantly increases Aer Lingus' presence in the Ireland-UK market in addition to new seasonal services to the Channel Islands and France. The concept is improved on an ongoing basis with new routes coming on-stream in 2011.

In July 2010, Aer Lingus awarded a base maintenance contract to Dublin Aerospace. These services were previously undertaken by Sabena Technics in France and will now migrate to Dublin. Aer Lingus is proud to support the development of Irish air maintenance activities.

We have already established our first integrated operations centre in Hangar 6 and the majority of our administrative and support functions will also transfer to Hangar 6 over the course of 2011. This should significantly improve the standard of work environment for these staff and will represent an important step in the 75 year evolution of Aer Lingus.

## 75th birthday

Aer Lingus is an airline with a proud tradition and will celebrate its 75th birthday on 27 May 2011. This is a momentous occasion for the airline, its staff and customers and we will be hosting a series of events during 2011 to mark the occasion.

## Staff

Time and time again during the year, I find myself returning to the key insight that Aer Lingus' key asset is its staff. It is the special and unique spirit that exists within Aer Lingus that keeps me motivated every day.

The weeks preceding Christmas 2010 were a very difficult time for the employees and passengers of Aer Lingus with the severe weather conditions seriously disrupting flights and placing heavy stresses on Aer Lingus' operations. Despite this, I am proud of the manner in which our staff responded with teams working literally around the clock in an attempt to get passengers to their destinations.

We must continue to drive improvements in operational excellence with an emphasis on teamwork across the organisation to achieve joint targets such as punctuality and agreed work practice changes.

## 2011 outlook

Aer Lingus is now on a much firmer footing than at the start of 2010. However, there is still a lot of work to be done inside the business in order to consolidate the progress achieved to date. In addition, we recognise that Aer Lingus is likely to face significant challenges in its external environment over the remainder of 2011.

We do not believe that demand conditions in our core markets have yet recovered sufficiently to support additional capacity deployment. For this reason, our capacity development for 2011 will be flat compared to 2010 when adjusted for weather and ash disruption.

It will be difficult for us to absorb the upward trajectory of airport charges in 2011, particularly in Dublin and London Heathrow. These increases make our service offering more expensive at a difficult time for consumers in our core markets. In addition, it is frustrating to be forced to bear these increased charges when our own employees have taken pay reductions and implemented productivity increases so as to ensure Aer Lingus' cost competitiveness in other areas.

We remain exposed to fuel price volatility. While we have a reasonable level of hedging protection already in place for 2011, we expect our 2011 fuel bill to be substantially higher than that in 2010.

While we expect to see the benefit in 2011 of the flow-through of actions taken in 2010 and some benefit from further cost saving measures in 2011, these upsides will not be sufficient to entirely compensate for increased airport charges.

We plan significant investment in our IT systems in 2011 on projects to improve passenger management, yield management and crew rostering. These are important tools to sustain our yield performance and manage productivity. The projects are currently under evaluation, but total costs could be up to €25m. The majority of this expenditure is likely to be current in nature and, given its scale, will be treated as an exceptional item in 2011.

Despite the trading challenges ahead in 2011, we believe that the changes we have made, and are making, to Aer Lingus, will result in a sustainable and profitable business, attractive to passengers, staff and shareholders. We have the balance sheet strength to protect the business while we make this transition.

I am confident that Aer Lingus has laid the necessary foundation work in 2010 in order to respond to whatever tests we may face in 2011 and to position the airline for a successful and profitable future.

**Christoph Mueller**  
*Chief Executive Officer*

25 March 2011

## Operating and financial review

### Business review

Following a €93 million operating loss in the first half of 2009 and changes in the senior management of the Group in the autumn of 2009, substantial changes were made to Aer Lingus' strategy coupled with urgent actions to address the losses. These actions included:

- Reduction of long-haul capacity and closure of loss-making routes
- Cuts in capacity on over-served short-haul routes
- The pricing policy was re-focused onto yield per ASK rather than load factor
- A €97 million cost saving programme (entitled "Greenfield") was launched

The review of Aer Lingus' business carried out by the new CEO at the time led to the conclusion that the airline had to position itself as a "value carrier" because the pure low cost/low fares model is not sustainable, whilst a full service model would not be competitive in the Irish market. The pure low cost/low fares model, in the image of Ryanair, is not sustainable for Aer Lingus for the following reasons:

- Deeply discounted aircraft are no longer available
- Our market proposition and customer expectation is for central rather than secondary peripheral airports, implying higher airport charges

- Tax funded marketing deals with secondary peripheral airports are no longer available
- The cost overhang of the Aer Lingus staff seniority list

Equally, the "full service" model adopted by many flag carriers is not competitive because:

- There is a relatively small business market to/from Ireland
- Our Dublin hub is in a disadvantageous geographic position for short-haul connecting flows; and
- Most importantly, low fares are embedded in the Irish market place and in the Irish consumer mindset

The market positioning adopted by Aer Lingus in 2010 is summarised in the following table:

	LCC Ultra-Low Cost Savings	Aer Lingus	Full Service Flag Carriers
<b>Target Market</b>	Price-sensitive leisure	Combination of leisure and business	Business and premium leisure
<b>Product offering</b>	Basic seat Very limited paid add-ons	Quality core product plus à la carte paid options	Multiple product attributes fully-bundled
<b>Airport selection</b>	Secondary	Central	Primary
<b>Customer engagement and relationship management</b>	None	Natural positive engagement Standalone FFP with selected reciprocity	Structured approach to customer engagement (one-to-one) Alliance based FFP*
<b>Customer expectations</b>	Low	Medium	High
<b>Distribution channel</b>	Internet only	Internet as priority but multi channel where appropriate	Multi-channel by default
<b>Network connectivity</b>	None	Appropriate connectivity offering at selected hubs Emphasis on partnerships and connectivity to other airlines	Alliance based with complex connectivity across several hubs
<b>Brand image</b>	Downmarket	Professional but affordable	Polished, upmarket
<b>Airport &amp; online check-in</b>	Additional charge	No charge	No charge
<b>Seat selection</b>	Additional charge for priority boarding	Majority of seats available for free selection 24 hours in advance of flight. Paid selection for some front of cabin seats	No charge

\* Note: FFP = frequent flyer programme

The combination of the actions taken in late 2009, the adoption of the market positioning described above and the implementation of the actions below, has resulted in the return of the Group to profitability in 2010. As explained in the Financial Review (below) the Group has produced an operating profit before exceptional items of €57.6 million for 2010 against a loss of €81.0 million in the prior year. This turnaround has been achieved on flat revenues in an overall declining market (e.g. 10% decline in year-on-year Dublin airport passenger volumes). Revenue was up 0.8% at €1,215.6 million. The fundamental elements of the strategy and their contribution to the turnaround are summarised below.

### Better matching of capacity to demand

Short-haul capacity (measured by ASKs) was reduced by 7.8% compared to 2009, with the load factor reducing by only 0.5 percentage points to 74.9%. It is important to note that the focus in 2010 was not just to reduce short-haul capacity but to better manage and, where required, re-deploy short-haul capacity with the objective of better serving underlying, natural demand, strengthening the Aer Lingus network and gaining market share. In long-haul, capacity was reduced by 24.1%, leading to a 5.3 percentage point increase in load factor to 78.4%. Overall, capacity was reduced by 13.9%, and the load factor increased by 1.6 percentage points to 76.1%. The reduction in capacity without an adverse effect on load factors illustrates that we achieved a better match between the seats we offered in 2010 and the natural demand in our markets.

### Focus on yields

We changed our pricing policy to optimise yield rather than load factors. Aer Lingus continues to operate in very price sensitive markets and the bulk of seats continue to be offered at what are designed to be attractive low fares. However, our yield management policy now recognises that a proportion of the demand for many of our flights is driven by passengers who are more time than price sensitive,

allowing us to improve yields for bookings that are made closer to the departure date. Our changed approach to yield management resulted in an 11.4 % increase in average fare per short-haul passenger and a 19.0% increase in average fare per long-haul passenger.

### Connectivity

We have emphasised connectivity, both within our own network and between our network and that of our interline partners, as a means of compensating for weak demand in the Irish market. Improved interline revenue was a target in 2010 and we delivered year-on-year increases in volume and yield. Interline revenue represented 7.7% of system revenue in 2010 compared with 6.7% in 2009 and we have continued to invest in relationship management with our key bilateral partners. This emphasis on connectivity meant that 34% of transatlantic sales in 2010 connected behind or beyond our gateway airports vs. 23% in 2009.

### Partnerships & Alliances

A key element of our connectivity strategy was the launch of the Aer Lingus Regional service at the end of March 2010. This is operated by our franchisee Aer Arann. The arrangement allows us to offer a service and earn a franchise fee, on routes that would otherwise be uneconomic with a jet aircraft, as well as generating transatlantic connections from provincial UK cities. 20,000 such connections were generated in 2010. We also launched, in early 2010, an extended codeshare agreement with United Airlines to operate a service between Washington to Madrid. The single aircraft extended codeshare was launched as a proof of concept and it has been profitable in 2010.

Aer Lingus needs partners in order to deliver on its core mission of connecting Ireland with the rest of the World and we are continuously evaluating opportunities with airline peers which will enable us to expand our service offering. We feel that our product quality and competitive cost base makes us an attractive partner.

### Review of 2010

The combination of snow and ash disruptions resulted in an ASK reduction of approximately 5% in 2010 compared to plan. This impacted revenue performance as a result of cancelled flights and also resulted in costs relating to passenger compensation and other items. In addition, unit cost performance was negatively impacted as fixed cost remained unchanged despite reduced capacity compared to plan.

The first quarter of 2010 showed an approximate halving of operating losses, largely attributable to lower fuel prices. Early indications of the success of the shift in commercial strategy became apparent with the 12.4% increase in long-haul average fare per passenger, coupled with a 3.8 percentage point increase in load factor. However, improvement in short-haul fare per passenger was only 3% as we had not, at that point, been able to reduce excess capacity at the London Gatwick base. This occurred at the start of the summer schedule at the end of March 2010.

In addition, Q1 2010 was adversely affected by the Irish airport departure tax, which was introduced in March/April 2009. March saw final approval of the Greenfield cost reduction programme following a 74% positive staff ballot, March also saw the launches of the Aer Lingus regional franchise and the extended codeshare agreement with United Airlines for the Washington to Madrid service.

As we moved into the second quarter, operations were disrupted by airspace closures caused by ash from the Icelandic volcanic eruption. Despite the associated cancellations, the Group reported an operating profit before exceptional items of €18.8 million, compared with a loss of €18.2 million for the same period in 2009. The second quarter provided early evidence of the success of our commercial strategy with short-haul yields up 13.8% and long-haul yields up 20.9%. We also started to implement the Greenfield programme and, by the end of June, had achieved staff cost savings with an annual value of €29.6 million.

We were encouraged that it was proving possible to achieve these operational results despite the adverse impact of the volcanic ash and the continuing difficult conditions in the key Irish market. At the time, passenger numbers passing through Dublin airport were 16% lower than in the first half of 2009.

The third quarter showed a continuation of the trends seen in the second quarter, with an operating profit, again before exceptional items, of €79.2 million against €58.5 million in 2009. Again, average yield per passenger was up 12.5% with average load factor up 3.0 percentage points at 83.4% overall. We continued to make good progress on the Greenfield programme with run-rate staff savings of €39 million implemented at the end of September.

As part of our cost reduction programme, we negotiated terms to consolidate our property portfolio at Dublin Airport and agreed that we would move into Terminal 2 at Dublin, when it opened. We had delayed committing to the new terminal until it became clear that there would be no differential pricing between Terminal 1 and Terminal 2. Terminal 2 was attractive to us because we were approaching the limits of our ability to handle transfer traffic in Terminal 1.

The fourth quarter again showed a continuation of previous trends, with operating losses (before exceptional items) reduced to €2.6 million from €46.6 million in 2009. Average fare per passenger was up 19.0% with overall load factor up 1.4 percentage points at 72.7%. We achieved this result despite very significant weather disruption and flight cancellations at the end of December. We ended 2010 having delivered our targeted €50 million run-rate staff savings.

At the end of December, we made a lump-sum payment to the Employee Share Ownership Trust ("ESOT") in order to extinguish our obligation to pay the ESOT a share of annual profits. At the time, the ESOT held 12.5% of the Group's share capital, in trust for some 4,700 current and former employees.

The obligation to pay profit share from profit before taxation and exceptional items was established at the time of the Group's IPO in 2006 and would have remained in place until the ESOT had received sufficient cash from the company to pay off approximately €25 million of debt that it had borrowed in 2006. It made economic sense to pre-pay the profit share to allow the ESOT to extinguish their debt because of the very substantial interest burden incurred by them. By making this payment to the ESOT, we have capped a liability which was not within our control and at the same time the free float of the company has increased significantly.

As a result, approximately 62.5 million shares held by the ESOT have now transferred to the direct ownership of current and former employees. Once all necessary arrangements are made for the withholding and payment of applicable taxes in the relevant jurisdictions, the balance of approximately 4.1 million shares will be appropriated in respect of the non-Irish beneficiaries of the trust.

As we look back on 2010, and forward to 2011, the following are apparent:

- Our brand and business is firmly rooted in Ireland. Given the state of the Irish economy and the fact that the Irish market is conditioned to expect low fares, growth will remain challenging for Aer Lingus for at least the short-term.
- Our principal competitor on 85% of all our routes is Ryanair, which has a structurally lower cost base than Aer Lingus. Reducing our costs is a strategic imperative, particularly when 50% of our cost base comprising of airport charges and fuel is rising significantly faster than inflation and is largely outside our control. However, we cannot match Ryanair in terms of cost and so differentiate ourselves on grounds other than price alone.
- We have significant further work to do inside Aer Lingus to improve our processes, procedures and the strength and depth of management. This is a major focus for 2011.

- The strategic changes that we have made to our business model at the end of last year have been substantially more successful than we had expected. This caused us to re-appraise our approach to the Greenfield programme for 2011.

As originally conceived in Spring 2009, Greenfield was intended as a programme to eliminate many of the costs associated with the value added carrier strategy that we are now pursuing, with a view to moving the business sharply toward the low cost/low fares model.

Some of the Greenfield initiatives, originally planned to be implemented in 2011, would have involved significant down sizing of our commercial, finance and IT departments as we would have focused purely on internet originating bookings and would have substantially simplified our approach to yield management.

The changes we made to the business model in 2010 have proved very successful. This has led us to the conclusion that, rather than eliminating certain elements of cost as had originally been planned under Greenfield, we actually need to reinforce and invest in some of these areas. As a consequence, we no longer plan to pursue some €14 million of staff and €18 million of non-staff savings, as to do so would undermine the foundations of our current success. For example, some of the original planned non-staff savings would have had us move to secondary airports, remove airport lounges and downgrade our in-flight entertainment and catering and important parts of our product offering. However, the €97 million target remains appropriate and achievable and we are currently validating further opportunities to reduce cost.

Adjusted for the savings which we will no longer implement, the assigned Greenfield plan represented €65 million of annual savings, against the initial target of €97 million. By the end of 2011, on the basis of firm plans we currently have, we expect to deliver €84 million of savings in run-rate terms. Our goal is to validate the new initiatives by the end of the first quarter of 2011, with a view to

achieving the remaining savings in full, in 2012. That said, in-year delivery in 2011 from the additional initiatives is likely to be reduced as it will take some time to implement them. Areas that we are currently exploring include the cross seasonal leasing of aircraft. We will provide regular updates on our progress during 2011.

## Staff

2010 has been a year of substantial achievement, none of which would have been possible without the dedication and commitment of our staff. We are extremely appreciative of the loyalty shown by our staff, their support of the Greenfield programme, and their commitment to delivering great service to our passengers. Whilst the majority of our staff have been very supportive, 2010 has not been entirely straightforward. In the second half of 2010, we faced gradually escalating industrial action from those members of our cabin crew who are members of the IMPACT union. These staff, who previously voted in favour of flying 850 hours a year, expressed dissatisfaction with some elements of the rosters designed to implement the agreement.

Matters came to a head in early 2011, which necessitated the hiring in of aircraft to maintain our flight schedule. This and the associated disruption to flights and bookings will have an adverse effect on first quarter performance in 2011 performance. We believe that the issue has now been satisfactorily resolved without compromising on the principle of 850 hours.

## Pensions

The Irish Airline Superannuation Scheme (IASS) is a multi employer scheme principally for employees of the Dublin Airport Authority (DAA) and Aer Lingus. The employers' contribution is fixed by the scheme's Trust Deed and Rules at 6.375% of pensionable salaries. Under the Trust Deed, there is no mechanism for increasing employer contributions without the employers' consent and the company therefore accounts for the scheme on a defined contribution basis.

However, for the purpose of paying benefits, the scheme is a defined benefit scheme as the benefits payable are based on a member's final salary. The IASS currently has a substantial actuarial deficit of circa €400 million on the statutory minimum funding standard basis as at 31/12/2010.

As part of the Greenfield agreements, Aer Lingus agreed to take part in discussions with Trade Unions representing members of the IASS about the future of pension provision in the group. These discussions have been taking place under the auspices of the Labour Relations Commission (LRC) and include the DAA and representations of its staff. The terms of reference of this process cover both the provision of viable pension arrangements for future service and a review of past service arrangements.

No agreement has yet been reached, but options under consideration for future pension provisions for Aer Lingus employees include a possible hybrid arrangement incorporating either a capped defined benefit or cash balance element with a defined contribution element above that cap.

Even if future service arrangements can be agreed, the trustees of the IASS are likely to be faced with a new deadline to agree a deficit reduction plan with the employers and to submit a funding proposal to the Pensions Board in summer 2011. Legislation permitting pension scheme trustees to purchase sovereign annuities was passed in December 2010. Such annuity products may reference sovereign bonds issued by Ireland and/or any other EU country or countries. A launch date for this arrangement remains uncertain and may be linked to the outcome of a wider review of funding standard issues.

Aer Lingus' financial obligation under the IASS is limited to its contribution obligation as set out in the Trust Deed and Rules and as described above.

## 2010 financial review

### Summary

The Group returned to profitability in 2010 with a €138.6m swing in the operating profit before net exceptional items, from a loss of €81.0m in 2009 to a profit of €57.6m in 2010. Revenue increased slightly by 0.8%, with a reduction in the number of passengers, arising from capacity reductions, offset by strong yield and strong ancillary revenue per passenger performance. The key driver behind the turnaround was the €128.7m reduction in operating costs, with reduced fuel prices, capacity related savings and Greenfield staff costs savings being the key contributors.

EBITDAR has increased by €139.2m to €196.7m and the Group recorded a net profit for the year of €49.2m (2009: loss of €130.1m).

### Passenger fare and ancillary revenue

Passenger fare and ancillary revenue for the year was in line with 2009 at €1,166.2m, despite a 10.0% reduction in the number of passengers carried to 9.35m (2009: 10.38m). Average fare per passenger increased by 12.0% and revenue per passenger (i.e. fare revenue plus ancillary revenue) increased by 11.0% to €124.78. Total revenue per ASK rose 17.2% to 6.65 cents (2009: 5.68 cents). Total passenger load factor increased by 1.6 points to 76.1% reflecting our strategy of achieving a better match between the capacity we offer and the natural level of demand in our markets.

### Short haul

Short haul fare revenue was €725.0m, (2009: €717.4m), an increase of 1.1%. However, short haul passengers carried were down by 9.3% to 8.4m, indicating an 11.4% increase in average fare to €85.92 (2009: €77.10). This performance was largely due to a changed approach to yield management. The increase in short haul average fare was supplemented by growth in ancillary revenue per passenger of €0.92 or 5.5%.

Short haul capacity, measured by available seat kilometres (ASKs) decreased by 7.8% arising from planned capacity reductions and enforced cancellations. In April 2010 the Group reduced the scale of its operations at London Gatwick which had been expanded at the end of the first quarter of 2009. A further reduction of 5.6% in total capacity compared to plan was caused by flight cancellations in January, November and December due to weather disruptions, and in April and May due to the Icelandic volcano. Capacity utilisation, measured by revenue passenger kilometres (RPKs) decreased by 8.4% resulting in short haul load factor decreasing by 0.5 points to 74.9%. We estimate that reducing the scale of our Gatwick operation will save approximately €10m in a full year, and that the volcano disruptions reduced operating profits (before exceptional items) by around the same amount. We incurred a further €4.3m in passenger compensation costs (an improvement on our in-year estimates of up to €10m) which has been treated as an exceptional item.

There were no changes to the size of the short haul fleet in 2010.

### Long haul

Long haul fare revenue remained flat at €276.1m (2009: €275.3m), despite a 24.1% reduction in capacity. Long haul was the principal cause of the Group's loss in 2009 and we responded by removing unprofitable routes and reducing capacity to better-align it with demand. We also worked to improve yield management and connecting traffic flows, with the result that 34% of transatlantic traffic connected behind or beyond our gateways, compared with 23% in 2009. Total long haul passengers decreased by 15.7% to 908,000. Like-for like business class revenues were up from 16% to 21% of total long haul revenues between 2009 and 2010.

There was a significant decrease in long haul capacity in the year, where ASKs fell by 24.1% mainly due to the full year effect of the withdrawal from the San Francisco and Washington routes in the last quarter of 2009.

Capacity was also reduced on all other long haul routes. RPKs decreased by 18.6% resulting in long haul load factor increasing by 5.3 points to 78.4%. The increase in revenue per passenger coupled with the lower costs associated with reduced capacity resulted in the return of long haul flying to profitability in 2010.

A new A330 aircraft was acquired on a finance lease in April and one A330 aircraft was returned to its lessor.

### Ancillary revenue

Ancillary revenue per passenger increased by 5.5% to €17.67. However due to the reduced passenger numbers, total ancillary revenue fell by 5.1% to €165.1m (2009: €173.9m). The most significant elements of ancillary revenue are in-flight sales, baggage fees, online booking fees, seat selection fees and commissions.

### Cargo

Aer Lingus' strategy is to carry cargo on both long haul and short haul passenger routes where aircraft turnaround times permit. Total cargo revenue increased by 20.4% to €41.3m (2009: €34.3m) driven by an increase in tonnage, with lower yields offset by increased fuel surcharge revenue. Short haul tonnage increased by 18.0% to 8,843 tonnes and long haul tonnage increased by 17.7% to 23,780 tonnes, resulting in a total tonnage increase of 17.8%. The cargo market remains very price competitive and average yield, excluding the fuel surcharge, decreased by 11.9%.

### Aer Lingus Regional and Washington Dulles-Madrid operation

Aer Lingus Regional services, operated by Aer Arann and the extended code share Washington Dulles – Madrid service, operated in partnership with United Airlines, both commenced on 28 March 2010. Franchise revenue generated by Aer Lingus Regional services was in line with expectations. The service between Washington and Madrid made a positive contribution to earnings. The Group's revenues from these sources are included as "other revenue" in the profit and loss account.

### Operating costs

Total operating costs, before net exceptional items, decreased in absolute terms by €128.7m or 10.0% to €1,158.0m, primarily as a result of lower fuel prices, the impact of Greenfield and earlier programmes on staff costs and lower maintenance costs. However, in relative terms, operating costs per ASK rose by 4.6% because the fall in operating costs was less than the reduction in capacity. The principal causes of this increase were airport charges which rose significantly faster than inflation, and additional temporary corporate costs to support the Greenfield programme. These corporate costs are expected to decline after the end of 2011. The underlying increase in costs per ASK was smaller than that indicated because of the weather and ash disruptions noted earlier. These disruptions resulted in a shortfall of approximately 5% of ASKs against plan. While variable costs were avoided during the disruption, our fixed costs remained at the same level. Cost per ASK would have been lower had we been able to fly the planned schedule.

Fuel costs decreased by €65.5m (19.7%) to €266.2m due to a decrease in the price of jet fuel and a 13.2% reduction in consumption to 429.9 KT (2009: 495.4 KT). The decrease was partly offset by the adverse movement in the US dollar (which appreciated by 8% during 2010). However, we entered 2010 with some 72% of our estimated US dollar requirements hedged at 1.48, so the dollar's appreciation was largely offset by gains on currency hedges, which are reported separately in the profit and loss account as other gains/losses. Fuel represented 23.0% of total costs in the year, down from 25.8% in 2009. The average cost of fuel, including into plane fees, was \$819 per tonne, compared to \$929 per tonne in 2009.

Staff costs, which represent 22.4% of operating costs, decreased by €53.3m or 17.1% to €258.9m. The 2009 costs were affected by €14.6m of charges which did not recur in 2010 and in 2010 the €3.9m impact of year on year reductions in untaken annual leave. The underlying reduction in staff costs is substantially made up of the €35.6m of in-year Greenfield cost saving measures. Average full

time equivalent employees during the period fell by 8.5% to 3,516 (2009: 3,844). Staff costs per ASK fell by 3.6%.

Airport charges, which represent 21.8% of operating costs, were in line with 2009 at €252.6m (2009: €252.0m). Airport charges were reduced due to planned capacity reductions and enforced cancellations in January and December due to snow disruptions, and in April and May due to the closure of northern European airspace. However, the savings realised from the reduced capacity and passenger numbers were offset in full by price increases at our principal airports. These increases averaged 11.4% per passenger, equivalent to 16.5% per ASK, and are of significant concern for the future. En-route charges decreased by 5.1% to €56.0m (2009: €59.0m) again due to the reduced number of flights in the period compared to the same period in 2009. However, these charges have also experienced price increases ahead of inflation and were up 10.2% per short haul ASK.

In headline terms, maintenance costs decreased by 23.0% to €54.3m (2009: €70.5m). Part of this reduction is attributable to the in-sourcing of certain activities that were part of third party maintenance costs in 2009. Excluding this effect, maintenance costs per flight hour decreased by 7.0%.

Depreciation increased by 5.8% to €87.4m (2009: €82.7m) due to the full year effect of the purchase of two A330 aircraft in the first half of 2009 and the addition of a further owned A330 in April 2010.

Aircraft operating lease costs decreased by 7.6% to €51.6m (2009: €55.8m) due to the full year effect of the return of three A330 aircraft to their lessors in 2009 and a further A330 aircraft returned to its lessor in March 2010. These savings were partly offset by the full year effect of three A320 aircraft which were taken on operating leases from March 2009, the sale and leaseback of an A320 aircraft in July 2010 and also the adverse impact of the movement in the US dollar during the period.

Distribution costs increased by 4.5% to €47.5m. Although we reduced advertising

spend, a deliberate change in the mix of our distribution channels and the increased use of GDS, while generating higher yields, has led to a net increase in distribution costs.

Other operating costs increased by 7.4% to €109.3m (2009: €101.7m) due to the additional costs incurred in dealing with the operational disruptions experienced during the period and higher overhead costs incurred in implementing projects necessary to achieve Greenfield cost savings. A similar level of overhead is likely to be incurred in 2011 as the group lacks the internal resource and skills necessary to implement change of the scale required in the Group and we believe these resources and skills are most efficiently resourced externally.

Other gains/losses - net, largely consists of the gains from maturing currency contracts. The group earns the majority of its revenues in Euro, but incurs significant expenses in US dollars primarily for fuel, aircraft hire and certain elements of maintenance expenditure. The group also has sterling income in excess of its sterling denominated costs. The company uses foreign exchange contracts to hedge these exposures. At the start of 2010, the group had bought an estimated 72% of its US dollar requirement for the year at an average rate of 1.48 and sold an estimated 50% of its Sterling surplus at an average rate of 0.88. Average actual exchange rates for the year were 1.33 and 0.86 respectively resulting in substantial gains being realised when the hedges matured. Revenues earned and costs incurred in foreign currencies are translated into Euro at the rates ruling at the time of the relevant transactions, and the gains and losses on hedging transactions are reported in the other gains/losses. Hedges returned a net gain of €25.8m for 2010 versus a net gain of €24.2m for 2009.

## Greenfield

The Group achieved €35.6m of staff cost savings under the Greenfield programme in 2010. These savings relate primarily to pay reductions, which were effective from 1 March 2010 and headcount reductions in 2010. The

full year effect of these savings corresponds to €50.0m. The Group also realised in year non-staff costs savings of €5.8m in 2010. Costs of €42.2m were expensed against the reorganisation provision established at the end of 2009 for this project. As explained in the business review above, we have decided to modify certain aspects of the Greenfield programme. As a result, we anticipate lower levels of staff cost savings than initially planned. The Greenfield provision has therefore been remeasured as at 31 December 2010 and €7.7m has been released as an exceptional credit.

## Net exceptional items

Net exceptional items includes a charge of €4.3m for the costs of compensating passengers for their costs incurred as a result of flight disruptions associated with the Icelandic volcano; a profit of €3.1m on the sale and leaseback of an A320 aircraft; a payment of €25.7m (including related costs) to discharge the ESOT profit share obligation; and a gain of €11.8m on the exit of the SRT line maintenance contract in December 2009. The re-measurement of the Greenfield redundancy costs has led to a further credit of €7.7m.

In 2008, Aer Lingus proposed to outsource the majority of its Dublin based ground operations as these operations were uneconomic by reference to prevailing norms in the airline industry. Discussions with the SIPTU union, facilitated by the National Implementation Body and later the Labour Relations Commission, led to a collective agreement in November 2008 on a significant restructuring of ground operations. This restructuring was agreed by Aer Lingus management at the time on the basis that the severance payments made to staff under the restructuring programme would qualify as a redundancy under the relevant legislation, with related rebates for Aer Lingus and termination of employment tax relief for affected staff.

On 3 March 2011, the Group announced that a settlement had been agreed with the Irish Revenue Commissioners and as a result, the Group would reduce the exceptional provision

announced on 24 February 2011, from €32.5 million to €29.5 million. The exceptional provision relates to PAYE, PRSI, interest, penalties and related costs arising from payments to 715 staff under a restructuring programme negotiated in 2008 at the Labour Relations Commission and implemented in 2009. The reduced exceptional provision represents the revised likely total cost of dealing with this matter.

### Finance income and expense

Finance income declined by 39.3% due to falling interest rates and lower average cash balances which amounted to €948.7m during the year (2009: €1061.0m). Finance expense decreased by 29.3% during the period mainly reflecting the maturity of two finance leases at the end of 2009 and lower interest rates. Average debt during 2010 amounted to €551.9m (2009: €569.8m).

### Tax charge

There was a tax credit for the year of €15.8m (2009: €24.8m). The Group has significant tax losses and at the end of 2009 an impairment provision of €12m was set up against the associated deferred tax asset as there was doubt about the Group's ability to make use of all these losses in the foreseeable future. Following the Group's return to profitability in 2010, this provision has been released and is the principal reason for the tax credit in 2010.

### Cash flow, cash and debt

Gross cash (loans and receivables, deposits, cash and cash equivalents and bank overdrafts) increased by €56.5m during the year to €885.0m (31 December 2009: €828.5m). During 2010, the Group made payments totalling €74.0m for the delivery of an A330 aircraft and deposits for future aircraft deliveries. The Group realised significant gains on hedging positions matching those payments, thus reducing the overall cost. The Group obtained new finance lease financing of €58.5m for the new aircraft. The Group made redundancy payments of €41.9m during the period.

We have US dollar denominated finance lease obligations which we generally match with US dollar denominated deposits.

Finance lease obligations at 31 December 2010, which increased due to the addition of the new A330 and the strengthening US dollar offset by scheduled repayments, totalled €535.2m (31 December 2009: €492.6m).

The value of gross cash and finance lease obligations both increased during the period due to the strengthening of the US dollar.

### Fuel and currency hedging

To achieve greater certainty on costs we manage our exposure to fluctuations in the prices of fuel and foreign currency through hedging. At 31 December 2010, our estimated fuel requirements for 2011 and for 2012 were 449,000 tonnes in each year, which were hedged as follows:

	2011	2012
% hedged	62%	12%
Average price per tonne	\$788	\$813

The Group's major foreign currency exposure is to the US dollar. At 31 December 2010, the Group's forward purchases of US dollars comprised: \$225m of the estimated trading requirements for 2011 at an average rate of €1=\$1.43 and \$125m of the estimated trading requirements for 2012 at an average rate of €1=\$1.44. In addition, the Group has hedged 98% of the cost of four new A320 aircraft due for delivery in the first half of 2011 at an average rate of €1=\$1.50.

### Fleet

In the first half of 2011, the Group will take delivery of four new A320 short-haul aircraft. The first of these aircraft was delivered in January. These aircraft are being acquired on finance leases and approximately €100m of new debt will be raised. Over the same period three A321 aircraft currently held on operating leases will be returned to their lessors and one short-haul aircraft is planned to be sold.

The Group currently has eight A330 long-haul aircraft, one of which is employed in the extended codeshare agreement with United Airlines. This fleet is larger than we currently require and it is intended that one aircraft will be sold in 2011. The Group intends to exercise an option to defer 3 A330 aircraft which would otherwise be due for delivery from Airbus in 2013 and 2014 and to replace them with 3 A350 aircraft for delivery no earlier than 2018. As a result of this change, the Group's long-haul order book will comprise 9 A350 aircraft with 4 scheduled for delivery in 2015, 2 in 2016 and 3 in 2018 or later. We expect to incur capital expenditure for aircraft purchases of €103m in 2011 (all of which will be financed with new leases) with a further €639m to be incurred between 2012 and 2016 or later.

## Principal risks and uncertainties

The Board of Aer Lingus is responsible for the Group's risk management systems, which are designed to identify, manage and mitigate potential material risks to the Group's strategic and business objectives. Safety is of paramount importance, and the management and mitigation of risks associated with flight safety is the subject of a discrete process, under the control of the Board Safety Committee. Our safety process is described on page 18.

The corporate risk management process seeks to mitigate the non flight risks faced by the business and is designed to ensure that senior management are focused on the material risks faced by the Group. After identification, each such risk is assessed in terms of its impact on the business should it occur, and the likelihood of occurrence. A risk management plan is then developed, setting out the controls in place and the additional mitigating actions to be applied. This process is iterative and refreshed periodically. The management of each major risk is subject to review on a quarterly basis with the internal audit department coordinating the quarterly review, tracking progress against action plans and reporting to the Board Risk Committee. The Executive Management team formally reassesses the corporate risk register on a quarterly basis to ensure that new and emerging risks are appropriately captured and evaluated, and that legacy issues which are no longer regarded as significant are removed.

The principal risks facing the Group are described below. This is not intended to be an exhaustive analysis of all the risks which may arise in the ordinary course of business or otherwise.

Risk	Impact	Mitigation
Economic conditions	Our revenues and passenger numbers are very sensitive to economic conditions in the markets in which we operate. Weakness in the Irish market in particular, but also in the UK, continental European or North American economies can have a significant negative impact on passenger volumes and fares. Sustained weakness in these markets could damage the group's ability to grow, to the possible detriment of the group's attractiveness as an investment for shareholders.	The Board reviews booking patterns and revenue forecasts on a regular basis and takes action when necessary to maintain an appropriate match between capacity and demand in the group's markets. The group attempts to compensate for weakness in the core Irish market by competing for inbound traffic and by using its relationships with other airlines, including Aer Lingus Regional, to flow transfer passengers through its network.
Partnerships and alliances	Aer Lingus derives substantial passenger revenues from its relationships with other airlines. These airlines are typically members of one of the three global alliances. The revenues make a very material contribution to the group's fixed costs. If at some future time these alliances were to restrict such relationships to their own members, or if the relationships were to be discontinued for other reasons, Aer Lingus could face the loss of significant revenue and profit.	Aer Lingus invests significant management time and effort in fostering these relationships. Were the alliances to become "exclusive" in the future, Aer Lingus could seek membership of one of them, but would need to weigh the revenue benefits that would accrue against the costs of membership.
Staff productivity and relations	Aer Lingus has a large unionised workforce and collective bargaining takes place on a regular basis across a range of issues including but not limited to: pay, rosters and pensions. A breakdown in the bargaining process could have the potential to result in industrial action, disrupting operations and adversely effecting business performance. The Greenfield agreements include productivity commitments which are an important element of the group's cost reduction programme and any inability to implement them might result in failure to achieve cost savings targets.	The Group seeks to maintain open and constructive relationships with staff representatives, while recognising that it may from time-to-time prove difficult to reach agreement on certain issues.

Risk	Impact	Mitigation
Cost recovery	The group operates in an extremely competitive market. The core Irish market is very price sensitive, with a substantial majority of passengers travelling for leisure or family reasons. Fuel and airport charges represented some 45% of the of the group's total costs in 2010. Volatility in the price of jet fuel can have a significant negative impact on costs and airport charges are largely outside our control. In addition, the group will become subject to the EU carbon emissions trading scheme in 2012, which will require the group to buy credits for CO <sub>2</sub> emissions in excess of a free allowance. This will add to cost. The nature of our markets can make it very difficult to pass cost increases on to passengers without an adverse impact on traffic volumes.	The group seeks to mitigate pressure on its margins by implementing fuel surcharges on longhaul flights, using hedging techniques to reduce the volatility in fuel prices and by actively managing those costs over which the group has more control. The group pays close attention to the profitability of individual routes and can consider reductions in capacity or other actions if cost increases erode margins.
Organisational capacity	The group is engaged in a change programme to create a flexible, entrepreneurial company with a competitive cost base. The extent of change that is required is significant, and a challenge for the group's managers and staff at all levels.	A programme office has been established to monitor the progress of Greenfield and other important projects being implemented in the business. Initiatives are being launched to improve the engagement of staff and assist managers to improve their own performance. The change programme receives the close attention of Executive Management and the Senior Management Group.
Operational disruption	2010 saw the closure of airspace on a number of occasions due to the eruption of the Icelandic volcano in April and May. Adverse weather conditions disrupted operations at the beginning and end of 2010, and again at the start of 2011. In addition, a dispute with cabin crew (now settled) resulted in flight cancellations and lost bookings in January and February 2011. Long term disruptions, or the inability to recover promptly from short term disruptions, can have a material adverse impact on the company's business in terms of lost bookings and revenue, additional cost and damaged customer confidence.	Important operational lessons were learned in 2010 from these disruptions, but the group remains exposed to potential future events, the nature and timing of which may be outside its control and which can occur at short notice.
Fleet	The group seeks to maintain a balance between owned and leased aircraft to give it the flexibility to reduce capacity at short notice by handing back leased aircraft. Maintaining this flexibility can result in higher operating costs. In addition, the Group has commitments to purchase new aircraft costing some €900 million over the next 8 years. There is a risk that these aircraft may not meet the group's needs if market conditions or the group's business change in the period up to delivery. There is also the risk that the group may not be able to raise finance to fund these purchases in the future and have to rely on its own resources.	Commercial operations, network planning, fleet management and supplier management are integrated under the Chief Commercial Officer to give the best overview of likely fleet requirements. The group regularly prepares and updates 5 year plans to assist it in managing its fleet and order book. The group maintains significant cash balances, partly in response to its aircraft order book.
Dublin hub	Dublin Airport is the Group's hub and is central to its operations. Punctuality and efficiency at Dublin is crucial to the quality of operations throughout the Aer Lingus network. In addition, important contributors to the efficiency of the station's operations are in the hands of third parties.	Work is underway to improve the consistency of operations at Dublin, with a particular emphasis on punctuality, resilience and the ability to manage and recover from disruption.

Risk	Impact	Mitigation
IT systems	We are dependent on IT systems for most of our primary business processes. The performance and reliability of these systems is critical to our ability to operate and compete effectively. Any failure of a critical IT system, for example in the areas of passenger bookings and yield management could adversely impact revenue generation and financial performance. In addition, Aer Lingus has identified the need to upgrade certain parts of its core revenue and staff rostering systems in 2011.	The group has put in place, and continues to invest in, technology security initiatives and disaster recovery and business continuity arrangements to mitigate the risk of a critical system failure. Project teams have been established to manage the IT upgrades and risk management plans are being developed for these new implementations.
Pensions	A default in the payment of basic pension benefits under the Group's Irish pension schemes could possibly result in a future claim against the Group. The position of the Group is that the liability of the group to contribute to the Irish pension schemes is fixed at their current contribution rates, and cannot be varied without the Group's consent. This is reflected in the documents governing the schemes. If the schemes were to default on the payment of basic benefits at some time in the future, lengthy litigation could ensue. If, contrary to the firm legal advice which the company has received, a Court were to find against the company in any such litigation, significant or very significant loss could arise.	Any attempt to make the group responsible for any shortfall in the Irish pension schemes would be resisted strenuously.
Financial	Details of the principal financial risks to which the group is exposed, and the approach to mitigating them, are set out in Note 3.1.	

## Board of Directors

Colm Barrington

### (Chairman)

Colm Barrington was appointed to the Board on 19 September 2008 and appointed as Chairman on 3 October 2008. He is Chief Executive Officer and a director of Fly Leasing Limited, the NYSE listed, Irish based, aircraft leasing company. He was formerly Managing Director of Babcock and Brown in Dublin from 1994 to 2007. Prior to that he held a number of senior executive management positions in GPA Group Plc from 1979 to 1993 and was appointed President of GE Capital Aviation Services Limited following its acquisition of GPA Group Plc. He has represented Ireland in international yacht racing and in 2007, he completed the Barrington Report on the Irish Private Health Insurance Industry for the Minister for Health and Children.

Christoph Mueller

### (Chief Executive Officer)

Christoph Mueller was appointed Chief Executive Officer and a member of the Board in September 2009. He has extensive experience within the aviation industry, having held senior positions in Daimler Benz Aerospace, Lufthansa AG, the Sabena Group, DHL and Deutsche Post AG, prior to his roles at TUI Travel plc. He served as the Chief Financial Officer of DHL Worldwide from 2002 to 2004 and became a member of the Executive Committee of Deutsche Post AG in 2004. In January 2006, Christoph joined the Executive Committee of TUI AG with responsibility for their flight division. In 2007, TUI AG merged its travel division with First Choice Holidays PLC to form TUI Travel plc, a leading international travel group listed on the London Stock Exchange and a member of the FTSE 100. He served as Executive Director, Aviation, at TUI Travel plc, where he managed a total of seven separate airlines, a fleet of 160 short-haul and long-haul aircraft and a team of 11,000 employees.

Andrew Macfarlane

### (Chief Financial Officer)

Andrew Macfarlane was appointed Chief Financial Officer and a member of the Board on 3 October 2010. He is a Fellow of the Institute of Chartered Accountants and holds an MA in Economics from Selwyn College, Cambridge. Andrew originally joined Aer Lingus as Interim Chief Financial Officer on 21 December 2009. Prior to his appointment he most recently served as Chief Financial Officer of Rentokil Initial plc and his career has covered the leisure, business services, real estate and accounting sectors. His early career was with Ernst & Young, where he spent 12 years, reaching the position of Corporate Finance Partner in 1987. In addition he has held the position of Chief Financial Officer at Land Securities Group plc and Holiday Inn.

David Begg

David Begg was appointed as a non-executive director effective on 28 January 2011. Prior to that he served as an ESOT nominee on the Board since January 2008. He has been General Secretary of the Irish Congress of Trade Unions since 2001. For five years prior to that he was Chief Executive of Concern Worldwide, an international humanitarian organisation working in 27 countries and with offices in Dublin, London, Belfast, New York and Chicago. He is also a governor of the Irish Times Trust and a member of the National Economic and Social Council. He also sits on the Executive Committee of the European Trade Union Confederation.

Montie Brewer

Montie Brewer was appointed to the Board on 25 January 2010. He is an airline veteran and a recognised industry innovator in airline pricing, sales and distribution strategies. Most recently he was President and CEO of Air Canada. He is currently a Non-executive Director of Allegiant Travel Company, recognised as one of North America's most innovative airline and travel groups. He holds a BA in Business Administration & Transportation Management from Michigan State University.

Leslie Buckley

Leslie Buckley was appointed to the Board on 18 May 2009. He is a founding director of Digicel a telecommunications group with over nine million subscribers and operations across the Caribbean, Central America and South Pacific. Previously, Leslie was involved in the start-up of Esat Telecom group plc and Esat Digifone Limited and held the position of acting Chief Operating Officer of Esat Telecom during 1996 and 1997. He established his own consultancy business in 1990 and was retained on a number of key public and private sector appointments. He is currently the Chairman of Saongroup.com and Business Recovery Services Limited. He is also a director of the Irish Medical Organisation Services Limited. In January 2009 Leslie established Haven, a charitable foundation dedicated to building and up-grading houses for the poorest of the poor, initially in Haiti, through long-term partnership programmes with communities and an annual Volunteer based "Build-It-Week". In March 2009 Leslie was also appointed to the Board of Independent News & Media PLC.

Thomas Corcoran

Thomas Corcoran was appointed to the Board on 4 May 2007. He has extensive and in-depth experience in the aviation industry worldwide. He is currently a Senior Advisor to The Carlyle Group and President of Corcoran Enterprises LLC, a management consultancy firm. He has held senior executive management positions at General Electric and Lockheed Martin. Tom is a member on the Boards of Directors of ARINC Incorporated (A Carlyle Company), L-3 Communications Corporation, REMEC Incorporated, LaBarge Incorporated and Serco Plc. He is also a Director of Aircraft Management Technologies, a privately held Irish company. He is active in the American Ireland Fund where he is a Director. He is a graduate of Stevens Institute of Technology where he is a Trustee and holds an honorary PhD.

Laurence Crowley

Laurence Crowley was appointed to the Board on 9 January 2009 and is the Senior Independent Director on the Board. He is Chairman of 'Gaisce - The President's Award', the Gate Theatre, The Middletown Centre for Autism, Ecocem Limited and Realex Payments. He is also a member of the Board of the Economic and Social Research Institute, An Bord Gáis, the Advisory Board of the US-Ireland Alliance and a number of other companies. He previously served as Governor of the Bank of Ireland (where he completed his term in 2005) and as Executive Chairman of the Michael Smurfit Graduate School of Business at University College Dublin. He is also a past director of Elan Corporation. Previously, he was a partner in KPMG Stokes Kennedy Crowley Chartered Accountants, where he specialised in corporate restructuring and insolvency. Laurence holds a Bachelor of Commerce degree from University College Dublin and is Fellow of the Institute of Chartered Accountants in Ireland. In 2004, he was conferred with an honorary Doctorate in Laws by the National University of Ireland. In 2009 he was awarded an Honorary CBE by Queen Elizabeth II for services to UK-Irish relations.

Mella Frewen

Mella Frewen was appointed to the Board on 1 January 2011. She is Director General of the Confederation of the Food and Drink Industries of the EU (CIAA) based in Brussels and has worked in the agri-food sector in Europe for over 20 years. She has Bachelor and Master of Science degrees from the National University of Ireland and completed a post-graduate course in marine biology at the Université Libre de Bruxelles. She also holds diploma in International Operations Management from INSEAD.

Danuta Gray

Danuta Gray was appointed to the Board on 25 August 2006. Most recently Danuta was Chief Executive of O2 Ireland, a position she held since 2001. She is a graduate of the University of Leeds. She is a member of the O2 Group Board. She is also a Director of Irish Life & Permanent plc and a member of the IMI Council.

Francis Hackett

Francis Hackett was appointed to the Board on 9 February 2006. Francis is a solicitor of over twenty years standing and is currently a consultant at Eversheds O'Donnell Sweeney, Solicitors. He has extensive experience in commercial law, corporate law, regulatory, telecommunications and information technology law.

Colin Hunt

Dr Colin Hunt was appointed to the Board on 31 January 2008. Colin is a Managing Director at Macquarie Capital and has responsibility for the firm's corporate advisory activities in Ireland. Previously he served as Special Adviser to the Ministers for Finance and Transport of Ireland. An economist by profession, he was Research Director and Chief Economist at Goodbody Stockbrokers, Head of Trading Research at Bank of Ireland Group Treasury and a country risk analyst at NatWest. He is a graduate of University College Cork and Trinity College Dublin.

Thomas Moran

Thomas Moran was appointed to the Board on 25 August 2006. Tom has served as Chairman of the Board of Mutual of America Life Insurance Company since June 2005 and has served as its President and Chief Executive Officer since October 1994. He has participated in its growth from a small retirement association to a mutual life insurance company. Tom is a graduate of Manhattan College and has extensive business experience and is a member of the Taoiseach's Economic Advisory Board, as well as the Boards of the Irish Chamber of Commerce in the USA and the Ireland-United States Council for Commerce and Industry, Inc.

Nicola Shaw

Nicola Shaw was appointed to the Board on 25 January 2010. Most recently, Nicola served as Director, Bus - UK, Ireland and Germany for FirstGroup plc, the world's leading transport company operating in Europe and North America, and transporting approximately 2.5 billion passengers a year. She previously worked in senior positions in both the UK Strategic Rail Authority and the Office of the Rail Regulator. She was also a transport consultant with Bechtel and Halcrow Fox and holds a BA in Modern History and Economics from Oxford University and an MSc in Transport from MIT.

## Executive Management Team

Christoph Mueller

**Chief Executive Officer**

See Board of Directors on page 16.

Andrew Macfarlane

**Chief Financial Officer**

See Board of Directors on page 16.

Michael Grealy

**Chief Human Resources Officer**

Michael Grealy is a graduate of Trinity College Dublin. He was appointed Chief Human Resources Officer in September 2009. Formerly Head of Group Human Resources and a member of the Group Executive Committee of The Bank of Ireland, Michael has extensive experience at a senior level in human resources within major industries in Ireland, France and the US. As a former Head of Group HR in Bank of Ireland (2001-2006), Michael was a key member of the senior management team and was central to the alignment of the Group's HR strategy with the Group's business strategy, as well as the implementation of a number of major change initiatives. Most recently Michael was Chief Executive, Alternative Investments and Global Distribution with The Bank of Ireland. Michael has also held senior Human Resources positions in Boston Scientific and Seagate Technology.

Stephen Kavanagh

**Chief Commercial Officer**

Stephen Kavanagh is a graduate of University College Dublin and joined the Company in 1988. He undertook a number of analytical and management roles in fleet scheduling and business planning departments before being appointed Operations Planning Manager in 2003 with responsibility for the integration of network, aircraft and crew planning, and a focus on improved productivity and asset utilisation. Stephen was appointed to the senior management team in March 2006 as Planning Director and was appointed as Corporate Planning Director in November 2007. In 2009 he was appointed as Chief Commercial Officer in addition to his planning and commercial responsibility for the long haul and short haul business.

Trever Jensen

**Chief Operating Officer**

Trevor Jensen Joined Aer Lingus as Chief Operating Officer on 1 June 2010. Prior to that Trevor served as Programme Director for the Flight Safety Foundation and his career has covered the aviation, transportation, logistics and natural resources sectors. His early career was with Qantas, where he spent over 25 years, training first as a pilot and reaching the position of General Manager of Operations in 1996. In addition he has held the position of Chief Operating Officer at Air New Zealand / Ansett and Jetstar and Head of Airline Operations at Qantas.

Enda Corneille

**Director of Shared Services**

Enda Corneille was appointed Director of Shared Services in 2010 with responsibility for information technology, legal and regulatory affairs, procurement, security and services. This appointment was in addition to his role as Director of Corporate Affairs with responsibility for internal and external communications including media relations, corporate and Government affairs together with all aspects of Aer Lingus branding, marketing and customer service. Enda has over 20 years experience with Aer Lingus and has held a number of positions including Commercial Director with responsibilities for developing the sales and marketing capabilities with an emphasis on the continued development of the website, [www.aerlingus.com](http://www.aerlingus.com).

# Safety and Security Statement

## Health, Safety and Security Organisation

Safety is a corporate value of Aer Lingus, and we are committed to maintaining a safe, healthy and sustainable working environment wherever we operate – for our staff, our customers and the public. We actively manage safety as an integral part of all operations, both in the air and on the ground. We are committed to implementing, developing and improving strategies, management systems and processes to ensure that all our activities uphold the highest level of safety performance.

In order to fulfil the commitments explicit in the Aer Lingus Safety Policy, management will enforce the requirement to proactively manage risk in the control of all activities of personnel and of the use of resources that are directly related to, or necessary for, the delivery of service to our customers. Recruitment practices, training and supervision of employees, and the procurement of equipment to support service delivery activity are all factors in the successful management of safety. Aer Lingus management will ensure that all staff adhere to safety policy and controls, and that their working environment remains conducive to carrying out their assigned duties.

The Aer Lingus Safety Management System ("SMS") as described in the Air Safety Manual provides the mechanism for management to deliver on this commitment.

Aer Lingus' SMS is directed by the Safety Manager. This role reports directly to the Chief Executive, ensuring continued accountability and awareness of these issues and their importance within the Group. The Safety Manager has responsibility for the coordination and oversight of the key SMS components; Air Safety, Health and Safety, Security, Quality Assurance and Emergency Response Planning

The Aer Lingus SMS is subject to an ongoing continuous improvement programme. In 2010, as part of the wider Corporate restructuring, the key focus for the Safety Manager was redirected towards the core function of flight safety and accident prevention. Other key components of the SMS now directly report into other departments within the Company, with the Safety Manager maintaining oversight of the entire system. Continued further investment in the SMS was also delivered, through recruitment to the Air Safety Office ("ASO") staff and realignment of some business practices, including Flight Data Monitoring (FDM) into the ASO.

The Group places great emphasis on proactive and predictive systems to manage safety. The SMS involves the ongoing routine collection and analysis of safety data during the ordinary course of business, which enables proactive management. This includes a Flight Data Monitoring Programme, a Confidential Air Safety Reporting System and a specific Hazard Identification and Risk Analysis (HIRA) programme. The principles of air safety management are integral to all Aer Lingus' training programmes. Courses are designed around the prevention of accidents and cover all aspects of flight operations, including the handling of dangerous goods, aviation security and emergency response planning. Staff training in all operational departments is mandatory. Training records and processes are regularly subject to external review and audit. Aer Lingus is subject to regular safety reviews, in particular, from the Irish Aviation Authority (IAA) and other airlines.

In 2010, the Air Safety office was successful in delivering training to all operational divisions, including North America, with a resultant increase in safety reporting across the network.

Aer Lingus is now registered as an IOSA Operator under the IATA Operational Safety Audit Programme. The IOSA programme is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.

Aircraft maintenance, repair and overhaul are critical to the safety and comfort of Aer Lingus' passengers, the efficient use of its aircraft and the optimisation of its fleet utilisation. The Aer Lingus maintenance system is subject to repeated audit inspections by the IAA.

There is a programme of continual review to ensure ongoing compliance with the Safety, Health and Welfare at Work Act 2005, and the General Applications Regulations 2007 and with all relevant safety regulations, as well as the integration of Health & Safety into the Airline's flight safety & accident prevention programme.

Information and advice for customers on air travel and health is available on the Group's website, [www.aerlingus.com](http://www.aerlingus.com), in the in-flight magazine, Cara, and through on-board announcements and videos.

## Air Safety

Aer Lingus' Air Safety Office acts as an independent monitor of air safety risk management. This office focuses on accident prevention and hazard and risk analysis and also promotes best practice and awareness throughout the Group. The Air Safety Office is also responsible for management of Flight Data Monitoring. This is a safety process whereby flight performance is regularly monitored to identify any areas of risk and is used in both operational and maintenance planning. The Air Safety Office operates the Group's Air Safety Reporting System, its Incident and Happening Database and a Confidential Air Safety reporting system.

Aer Lingus participates in a number of International Air Safety Organisations including; European Aviation Safety Agency (EASA), European Commercial Aircraft Safety Team (ECAST), International Air Transport Association (IATA), International Air Carrier Association (IACA), the Irish Aviation Authority (IAA) Safety Management Working Group, the United Kingdom Flight Safety Committee (UKFSC), the Flight Safety Foundation (FSF), the UK Flight Data Monitoring Forum and the National Bird Hazard Committee. Through its involvement with the international aviation community, Aer Lingus enhances its safety awareness by means of information sharing, ensuring that at all times the Group is fully compliant with international best practice in the safety arena.

### Board Safety Committee

The Board has a Safety Committee, which assists the Board in discharging its responsibility for safety, including ensuring that adequate safety regulations and procedures are in place across the Group, that such regulations and procedures are complied with and reviewed from time to time, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed.

In this role they meet at least quarterly with the Chief Executive Officer, the Safety Advisor, representatives from the Air Safety Office and the Health and Safety Manager, to be appraised of safety performance and developments within the organisation. See page 32 for further details.

### Health and Safety

The Company maintains a well established Health and Safety Office, which focuses on work-place safety, health and welfare. Under the direction of the Corporate Health & Safety Advisor, who co-ordinates the implementation of health and safety policy across the Group,

the office also regularly reviews and develops policy. The Health and Safety Office focuses on accident prevention via a hazard and risk assessment programme. The health and safety officers run continuous programme of health and safety training in consultation with line departments, advising departments on development of health and safety and manages incident reporting and occupational accident investigation procedures.

It is Aer Lingus policy to have as a constant objective the creation and maintenance of a safe working environment for its staff and the Group has a Safety Statement, based on compliance with all relevant legislation and regulations, which specifies how this should be implemented. Annual reviews are carried out to ensure compliance and system effectiveness. Aer Lingus Health and Safety personnel are members of a number of safety organisations including; Institution of Occupational Safety and Health, The International Air Transport Section of the US National Safety Council, and the Aviation Ground Safety Council (UK). The Health and Safety Advisor is one of the employer representatives on the Manual Handling Advisory Group for the H.S.A. In addition, the Group operates an Employee Assistance Programme (EAP), which is a resource that provides education to staff on matters pertaining to health and information to facilitate improved attendance management.

### Quality Assurance

The Quality Management System provides regulatory compliance oversight of both technical and operational activities, as well as all third party and partner airline contracts. It performs the oversight and internal audit function of Aer Lingus and contracted organisations in order to comply with the requirements of the Irish Aviation Authority (IAA), EASA (European Aviation Safety Agency) and EU-Ops legislation. The Quality manager

also coordinates Aer Lingus' association with the International Air Transport Association (IATA) Operational Safety Audit programme (IOSA).

Aer Lingus is now registered as an IOSA Operator. The IOSA programme is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.

### Security

Aer Lingus ensures that staff are made aware of the need for a high level of security at all times. The Group's Corporate Security Office acts in an advisory and consultative capacity in relation to all aspects of security and provides management with general guidelines in relation to security and loss prevention. The aim of aviation security is to protect passengers, crew, staff, and members of the public and civil aviation in general from acts of unlawful interference. Aer Lingus ensures that both directly employed staff, handling agents and contracted agencies are made aware of the need for a high level of security at all times. Aer Lingus achieves this aim by compliance with all aviation security statutory and regulatory requirements in jurisdictions where operations are undertaken. We fully co-operate with law enforcement agencies and adopt a proactive approach to the development of best practice in all areas of aviation security.

Aer Lingus continues to ensure its Disruptive Passenger Policy is followed. This policy has been made available to all staff and handling agents to minimise disruption to passengers and prevent and detect behaviour that causes discomfort, inconvenience, or injury to other passengers or the crew.

The Aer Lingus Air Carrier Security Plan (ACSP) is subject to regular audit by the Department of Transport.

# Corporate Social Responsibility Statement

## Environment

Aer Lingus acknowledges that its operations have an impact on the environment. Balancing the protection of the environment with people's need to travel is essential for both ethical and business reasons.

Controlling fuel consumption is also a business priority. In 2010, fuel costs represented 23% of the Group's total operating costs. However, it is important to note that aviation is a relatively small contributor to climate change. The United Nations Intergovernmental Panel on Climate Change (IPCC) states that, globally, aviation contributes to only 2-3% of the world's CO<sub>2</sub> emissions. According to the Association of European Airlines, European aviation accounts for 0.5% of this total. While aviation has an environmental effect, the airline industry as a whole is taking a great many practical measures to limit emissions. The challenge for the Aer Lingus is to balance the needs of the business with the need to improve environmental performance.

The Group continues to research and implement new strategies and programmes to reduce its environmental impact – including aircraft and engine condition monitoring and maintenance, waste management, and, most importantly, continued investment in new technologies and new aircraft. Aer Lingus' fuel efficiency has improved significantly in the last 20 years, with the average fuel consumption per revenue passenger kilometre reducing by 52% since 1991. This in turn reduces the emissions per revenue passenger kilometers.

Emissions trading is one of the economic instruments that can be used to address climate change. The ETS is one of the mechanisms whereby the EU seeks to meet its emission reduction targets. The directive requires all flights both intra EU and into and out of EU airspace to participate in a carbon cap-and-trade scheme.

The Aviation Directive (Directive 2008/101/EC amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community) came into force on 2 February 2009. The Irish Environmental Protection Agency (EPA) has been appointed the Competent Authority (Regulator) for the implementation of the Directive in Ireland.

In August 2009 Aer Lingus was required to submit monitoring plans for emissions to the Environmental Protection Agency including a first Monitoring Plan for Tonne-Km Data (TKD) and another for Annual Emissions.

Inclusion of aviation activity in the EU ETS requires Aer Lingus to account for their greenhouse gas emissions over a given year. At the end of that year, the Aer Lingus must have enough CO<sub>2</sub> allowances (credits) for the fuel burned on flights to, from and within EU countries in the year.

Aer Lingus has three sources to account for its carbon emitted: free allocation allowances, allowances purchased on the open market and carbon offset credits. The free allocation credits from the benchmarking process, carbon offset credits up to 15% of emissions, and if necessary, the purchased additional allowances from the market are used to account for the operator's emissions in that year.

If actual emissions are anticipated to exceed their allowances, Aer Lingus must either buy additional emissions allowances if available in the market, or reduce their emissions by investing in more efficient technologies or operational practices. In the event Aer Lingus has a surplus of allowances at the end of the year, the surplus may be sold back to the market.

The Group firmly believes that a well-designed ETS can contribute to an ethical and equitable management of emissions and act as a catalyst, enhancing the effectiveness of other measures.

To be fully effective an ETS must also be supported by infrastructure change that would further contribute to reduced emissions. In particular, the implementation of the Single European Sky policy should be accelerated so as to achieve the 12% emissions reduction that would result from a better Air Traffic Management System. Authorities also need to tackle the problem of airport congestion, which significantly contributes to unnecessary fuel burn and hence emissions.

## Fleet

According to the United Nations Intergovernmental Panel on Climate Change (IPCC) global passenger air travel, as measured in revenue passenger kilometers, is projected to grow by about 5% per year between 1990 and 2015, whereas total aviation fuel use, including passenger, freight, and military, is projected to increase by 3% per year, over the same period, the difference being due largely to improved aircraft efficiency.

Aer Lingus currently operates a single aircraft type in its short haul fleet, the Airbus A320/A321 family, with an average age of just 6.63 years as at December 2010. Aer Lingus expects to return three A321 aircraft (1998 and 1999 vintage) to the Lessor in early 2011 and take delivery of four new A320 aircraft in January to May of this year. We also plan to dispose of a 2000 vintage A320 in the course of 2011. These aircraft movements will further reduce the average age of the fleet resulting in reduced fuel burn.

On Long Haul, Aer Lingus operates the Airbus A330 aircraft. The average age of the fleet at December 2010 was 6.19 years. The Airline took delivery of one new A330-300 in 2010. Also in 2010, one 1994 vintage A330 was returned to its Lessor. Aer Lingus has an order for six A350 XWBs the next generation of wide-body aircraft due to be delivered in 2015/2016.

## Air Emissions

Aer Lingus operates a focused “fuel conservation plan” to minimise fuel burned and the emission of greenhouse gases. This plan harnesses available cost efficiencies and as emissions are directly proportional to fuel burn, it also reduces emission levels and it has had a measurable impact on fuel and emission efficiency. On an ongoing basis, engines are monitored, maintained and overhauled to maximise fuel efficiency and minimise emissions, and environmental upgrades are added on overhaul where available. This engine conditioning monitoring aims to give advance warning of impending deterioration of parts, allowing for preventative maintenance which contributes to ensuring efficient engines and therefore has both emission control and fuel burn benefits. Aer Lingus also performs engine water washes on both engines types in the fleet, which improves fuel burn and also results in lower emissions. In addition, airframes are inspected and maintained to ensure minimum drag. Aer Lingus’ continued commitment to maintaining a young fleet also improves operational fuel efficiencies due to the use of newer technology and this will continue in the future.

## Noise

Aer Lingus’ aircraft are amongst the quietest in the industry due to their low average age. Aer Lingus generally does not operate flights late at night when noise is of the greatest concern. As airports levy “noise charges”, Aer Lingus’ efforts to reduce noise (e.g. use of ground power instead of Auxiliary Power Units) can also generate cost efficiencies. Continuous Descent Approaches (CDAs) are now performed wherever possible. This involves using a continuous steady descent rather than following a number of short descents. The CDA flight path is generally higher, thereby reducing noise impacts and there is also a beneficial impact on emissions. Aer Lingus fully complies

with all international and national regulations and continues to focus on developing and implementing low noise procedures.

Aer Lingus received a major award at the Operation Pathfinder Award Ceremony in April 2010. Aer Lingus was awarded for the best track-keeping performance at Birmingham International Airport, achieving an impressive 100% ‘on track’ performance. These awards celebrate the skillful flying of airlines that achieve the highest standards in track keeping. The importance of this accuracy cannot be understated, as it helps to minimise the impact of the airport on the local community.

## Waste Management

Aer Lingus is committed to waste management including the collection, transport, processing, recycling, disposal, and monitoring of waste materials. As with all airlines, Aer Lingus must store and/or handle potentially hazardous waste as a result of its operations (e.g. solid/liquid waste from maintenance operations). These operations are subject to detailed legislation and regulation. All staff involved in these operations receive appropriate training and Aer Lingus ensures that processes applied both internally and, by third parties engaged to treat such waste, are in line with best practice. Non-hazardous waste from aircraft is also subject to controls and licensing. Aer Lingus continues to achieve reductions in catering waste due to the “buy on board” products whereby food is purchased based on individual passenger needs.

## Emissions to Waters/Sewers

Aer Lingus is subject to regulation and licensing in relation to surface water and sewer emissions from operations such as de-icing, fuel/oil spillages and catering sewer emissions. Aer Lingus has pollution prevention policies and procedures in place across its network and works closely with airport authorities to ensure full compliance and to avoid penalties and fines.

## Infrastructure Efficiency

Aer Lingus is committed to reducing costs in the airport environment. The Airline has introduced technology, which reduces demand for terminal space, such as self-service check-in and the “web check-in” facility. All of these technologies allow more efficient use of terminal space.

## Energy Monitoring

Aer Lingus is committed to improving its energy management performance. A continuous process of monitoring, controlling, and conserving energy in all Aer Lingus buildings is ongoing. Energy consumption in our Aer Lingus premises is regularly monitored and benchmarked against industry standards and best practice. “Green” electricity is used at stations where available.

## Staff

Aer Lingus recognises the importance of the contribution made by staff in delivering continuous improvement in organisational performance and results and values the knowledge, skills and experience of employees. Aer Lingus supports training and development of staff to ensure the safe and efficient operation of the business.

## Recruitment

Aer Lingus policy on recruitment and selection is to provide the organisation with the people having the skills, competencies and aptitude to meet our strategic objectives; to provide equal access to all qualified candidates and avoid all forms of discrimination; and to select the candidate most suitable for the job in question on the basis of pre-set criteria. The Group fills vacancies through the provision of opportunities for existing staff to progress within the organisation, combined with the recruitment of specific expertise and skills externally. Aer Lingus operates a highly effective, low cost recruitment model, where over 95% of external recruitment needs

are sourced through the Group's website, [www.aerlingus.com](http://www.aerlingus.com).

## Training and Development

Aer Lingus is committed to providing high-quality training to support the safe and efficient operation of the business with the primary training focus on mandatory requirements, in particular air safety, aviation security, health and safety and operational training. In addition, there is a particular focus on customer service training to ensure that a consistent, satisfactory customer experience is delivered. Aer Lingus operates a dedicated learning centre and has a large range of training programmes available through e-learning. The majority of cabin crew and pilot training is designed and delivered in-house through dedicated facilities on-site so as to ensure a consistent standard and quality of training.

## Equality and Diversity

Aer Lingus is fully committed to being an equal opportunities employer regardless of nationality or ethnic origin, race, gender, sexual orientation, marital status, disability, age and religious or political belief. The Group proactively pursues compliance with all relevant equality legislation. During 2010 a total of 37 different nationalities worked across the Group.

## Flexible Working

Aer Lingus recognises that changes in personal circumstances affect employees' lives and work. In order to recognise the diverse needs of employees, and to ensure fairness and consistency across the Group, Aer Lingus has a flexible working policy. The objective of this policy is to help staff achieve a healthier balance between their working lives and personal responsibility without compromising business needs and to retain valued, experienced and trained employees. The policy includes flexible working and leave arrangements such as flexitime, part-time work, job sharing, paternity leave, bereavement leave and compassionate leave.

## Communication and Consultation with Employees

As at 31 December 2010 approximately 90% of Aer Lingus employees were members of trade unions. Aer Lingus fully recognises the value and rights of employees under current legislation with regard to worker participation. The Group has engaged extensively with worker representatives particularly with regard to the implementation of its Greenfield cost reduction programme. In addition, Aer Lingus has various communication channels in place to keep all employees up-to-date on key issues and developments, including an intranet, notice boards, webcasts, email, newsletters, road shows and department briefings and specific websites for pilots and cabin crew.

## Charity and Community

Aer Lingus facilitates staff charitable donations through payroll deductions and also encourages and supports staff involvement in charitable activities. Aer Lingus facilitates its employees in paying subscriptions and volunteering with Air Concern, a Dublin Airport based charity, which provides financial assistance to families in need in the community by working in partnership with the Ballymun Money Advice Service.

Change for Good™ is an innovative partnership between UNICEF (The United Nations Children's Fund) and the international airline industry. Established in 1987, it is one of UNICEF's best-known and longest-running partnerships and currently more than 10 international airlines support the Change for Good™ programme.

Working in over 150 countries, UNICEF provides children with health care, clean water, nutrition, education, emergency relief, and more. UNICEF is at the forefront of efforts to reduce child mortality worldwide. Every day, simply by putting unused currencies into Change for Good™ envelopes, Aer Lingus passengers are supporting UNICEF's mission to do whatever it takes to reduce the number of children dying from preventable causes to zero, by giving children the essentials for a safe and healthy childhood. For more information on

UNICEF Ireland and the Change for Good™ partnership, please visit [www.unicef.ie](http://www.unicef.ie).

In January 2010, the Caribbean island of Haiti was devastated by a severe earthquake, which resulted in widespread destruction leaving hundreds of thousands dead and over 1.5 million people in need of emergency assistance. In response to this disaster, Aer Lingus Cabin Crew facilitated special Change for Good collections during the month of January. Collections were made onboard all short-haul and transatlantic flights for UNICEF Ireland's Emergency Appeal for the children of Haiti. The total sum raised over the two week period was €226,081.

Following the heavy flooding in Pakistan in July, Aer Lingus Cabin Crew facilitated another special collection on board all flights for one week, raising a total of €93,715. The emergency response in Pakistan is one of the largest in UNICEF's history. UNICEF support in Pakistan included providing clean water for 2.8 million people daily, vaccinating 9 million children against measles and polio and providing 1,550 temporary education centres so that flood-affected children could return to their studies.

In October 2010, Aer Lingus also conducted a special two week collection on board all Aer Lingus flights to coincide with UNICEF Ireland's "Euro for Zero" campaign. The campaign aimed to raise €1 million in just two weeks, simply by asking every adult in Ireland to donate one euro each to UNICEF. This special onboard collection raised €199,269.

This funding went to UNICEF programmes across the world that are working to reduce the number of children who die every day from causes we can prevent – like not having enough food to eat, safe water to drink or proper medicines to take when they are sick. Since 1990, when 34,000 children died every day, UNICEF and its partners have helped cut the global under-five mortality rate by an incredible 33 percent. UNICEF is now closer than ever before to the day when zero children die from preventable causes. This is a testament to the

steadfast support of UNICEF's supporters like Aer Lingus. As a result of the generosity of Aer Lingus passengers, thousands of children are surviving who otherwise would have perished.

Aer Lingus are proud title sponsors of the Aer Lingus Belfast Giants for the 2010/2011 ice hockey season. The airline has supported the team by flying many of the players from North America to Ireland for their tenth season and to London to take part in the Super Elite League. In conjunction with the sponsorship, the airline launched the GIANT Schools' Art Competition with NI4kids magazine, inviting Primary Five and Six classes across Northern Ireland to design an ice hockey shirt for our ice mascot, Rover The Flying Clover.

Aer Lingus for the second year partnered with Belfast City Marathon, as a gold sponsor, for the 2010 Marathon. The airline welcomed many of the participants and spectators on board who travelled to the event in May 2010.

Aer Lingus is delighted to continue its support of Special Olympics Ireland. The airline supported Team Ireland travelling to the 2010 Special Olympics European Games which were held in Warsaw, Poland. The European Games provided a showcase for the Special Olympics movement in Western Europe, Eastern Europe and Central Asia and celebrated the abilities and accomplishments of athletes with intellectual disabilities.

## Ethical

The Aer Lingus Code of Business Conduct and Ethics aims to ensure the highest ethical standards in conducting business activities with customers and suppliers. The code supplements established procedures, regulations and authority levels already in place. Staff contracts contain an obligation to comply with Group policies. Under the Code of Business Conduct and Ethics employees have a responsibility to declare in writing any potential conflict of interest which might affect their impartiality in carrying out their duties; maintain confidentiality of information at all times; and ensure they do not accept

gifts, entertainment or favours from customers or suppliers which could compromise them. In addition, there is a specific procurement policy, which governs the purchase of significant goods and services.

# Directors' Report

Year ended 31 December 2010

## Introduction

The Directors present their report to shareholders, together with the financial statements of Aer Lingus Group plc and the Auditors' report thereon, for the year ended 31 December 2010.

## Principal activities and future developments

The principal activities during the year continued to be the provision of air travel services. The Chairman's Statement and Chief Executive Officer's Review on pages 2 to 5 reports on developments during the year, on the state of affairs at 31 December 2010, on events since 31 December 2010, and on likely future developments. Further information with respect to the review of the business and future developments is contained in the Operating and Financial Review on pages 6 to 12. The financial statements for the year ended 31 December 2010 are set out in details on pages 44 to 89.

Information on the key performance indicators applicable to the Group are detailed in the Financial Highlights on page 1, the Chairman's Statement on pages 2 to 5, the Chief Executive Officer's Review on pages 4 to 5 and in the Operating and Financial Review on pages 6 to 12.

## Results for the year and state of affairs as at 31 December 2010

The consolidated income statement for the year ended 31 December 2010 and the consolidated statement of financial position at that date are set out on pages 44 and 46 respectively. The profit for the year after tax amounted to €49.2 million (2009: loss of €130.1 million).

The movement on the retained earnings for the year is as follows:

	€m
Balance, 31 December 2009	(188.3)
Profit for the year	49.2
Balance, 31 December 2010	(139.1)

Total equity increased by €97.9 million during the year as a result of the profit for the year of €49.2 million and an increase in other reserves of €48.7 million. No further transfers to or from reserves are proposed by Directors.

## Substantial interests in share capital

As at 25 March 2011, the Directors are aware of the following substantial interest in the share capital of the company which represent more than 3% of the issued share capital.

Name	Shares held	% of issued share capital
Ryanair Limited	159,231,025	29.82%
Minister for Finance of Ireland	134,109,026	25.11%
Denis O' Brien	17,598,822	3.295%

As far as the company is aware, other than stated above, no other person or company has an interest of more than 3% in the share capital of the company. Aer Lingus ESOP Trustee Limited ceased to hold more than 3% of the issued share capital of the company in December 2010 when approximately 62.5 million shares transferred into the direct ownership of the Irish resident beneficiaries of the Aer Lingus employee share ownership trust. Once all necessary arrangements are made for the withholding and payment of applicable taxes in the relevant jurisdictions, the balance of approximately 4.1 million shares will be appropriated in respect of the non-Irish beneficiaries of the trust. The beneficiaries comprise some 4,700 current and former employees of the Group.

## Accounting policies

The Group accounts are prepared under International Financial Reporting Standards as adopted by the EU. The principal accounting policies, together with the basis of preparation of the accounts are set out on pages 51 to 61.

## Dividends

The Directors do not propose the payment of dividends in respect of the year ended 31 December 2010.

## Principal risks and uncertainties

Information on the principal risks and uncertainties facing the Group are detailed on pages 13 to 15. The Financial Risk Management policies in place to address these are set out in Note 3 to the consolidated financial statements.

## Directors' Report (*continued*)

### Directors and Secretary

The names of the current Directors appear on page 16, together with a short biographical note on each Director. The Directors who served during the year are listed in the table below:

Director	Status	Independent/ Non-Independent
Colm Barrington	Current	Independent
David Begg	Current	Non-Independent (former ESOT nominee)
Montie Brewer	Current	Independent
Leslie Buckley	Current	Non-Independent (Minister's nominee)
Thomas Corcoran	Current	Independent
Laurence Crowley	Current	Independent
Ivor Fitzpatrick	Retired	Independent
Danuta Gray	Current	Independent
Francis Hackett	Current	Non-Independent (Minister's nominee)
Colin Hunt	Current	Non-Independent (Minister's nominee)
Michael Johns	Retired	Non-Independent (former ESOT nominee)
Andrew Macfarlane	Current	Non-Independent (Executive)
Anne Mills	Retired	Independent
Thomas Moran	Current	Independent
Christoph Mueller	Current	Non-Independent (Executive)
Nicola Shaw	Current	Independent

Mr Montie Brewer and Ms Nicola Shaw were appointed to the Board on 25 January 2010.

On 21 March 2010 Ms Anne Mills retired upon the expiry of her term of office as a director.

Mr Thomas Corcoran and Mr Thomas Moran were both re-elected at the Company's Annual General Meeting during the year.

Mr Christoph Mueller, Mr Montie Brewer and Ms Nicola Shaw were each elected at the Company's Annual General Meeting during the year.

Mr Andrew Macfarlane was appointed to the Board on 3 October 2010 and will be put forward for election at the forthcoming Annual General Meeting.

Mr Ivor Fitzpatrick retired from the Board on 31 December 2010.

Ms Mella Frewen was appointed to the Board on 1 January 2011 and will be put forward for election at the forthcoming Annual General Meeting.

Mr David Begg was appointed to the Board on 28 January 2011 following the expiry of his term of appointment as a director nominated by Aer Lingus ESOP Trustees Limited ("ESOT"). He will be put forward for election at the forthcoming Annual General Meeting.

Mr Michael Johns retired from the Board as an ESOT nominated Director on 28 February 2011.

Ms Danuta Gray, Mr Colm Barrington and Mr Laurence Crowley will retire by rotation as Directors in accordance with the Articles of Association at the forthcoming Annual General Meeting and following review are being recommended for re-election. None of the non-executive Directors retiring by rotation has a service contract with the Company.

The interest of the Directors in office at 31 December 2010 in the shares of the Group are outlined in the Report of the Remuneration Committee on Directors Remuneration on page 41.

During the year ended 31 December 2010, the Company Secretary (Mr Donal Moriarty) was granted a conditional award of 88,947 shares under the Long Term Incentive Plan ("LTIP") in respect of the vesting period 1 January 2010 to 31 December 2012. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP.

There were no contracts or arrangements entered into during the year in which a Director was materially interested and which were significant in relation to the Group's business.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group.

## Directors' Report (*continued*)

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are also required by applicable law and the Listing Rules issued by the Irish Stock Exchange, to prepare a directors' report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 ("the Transparency Regulations"), the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the group.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Irish legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Internal control

The Board has overall responsibility for the Group's system of internal control. Those systems which are maintained by the Group, can only provide reasonable and not absolute assurance against material misstatement or loss. An outline of the Group's Internal Control processes is included in the Corporate Governance Statement on pages 27 to 36.

### Issue and purchase of own shares

The Company received authority from shareholders at its last Annual General Meeting on 18 June 2010 to allot relevant securities up to a nominal value of €8,811,661 and purchase up to 10% of its own shares. The Company did not exercise these authorities during 2010. Both these authorities are due to expire at the Company's forthcoming Annual General Meeting on 6 May 2011, and shareholders will be requested to renew them. Details of the proposed renewal of the authorities will be set out in the notice of the meeting.

### Share ownership restrictions

Since Aer Lingus' entitlement to obtain or to continue to hold or enjoy the benefit of the licences, permits, consents and privileges that enable Aer Lingus to carry on business as an air carrier in Ireland and/or internationally can be adversely affected if too many of the Ordinary Shares are held by non-EU nationals, the Directors are given certain powers under the Articles of Association to take action to ensure that shareholdings of non-EU nationals in the Company's share capital are not of such a size or type which could jeopardise Aer Lingus' air carrier rights. The Directors have the power to designate a maximum percentage of the Company's share capital which may be held by Non-EU nationals and have determined that in excess of 50% of the Company's issued share capital are required to be held by EU shareholders.

### Political contributions

No political donations were made by the Group during the year.

### Subsidiary companies

Details of the Group companies are set out in Note 16 to the consolidated financial statements.

### Books of account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Dublin Airport, Co. Dublin, Ireland.

### Independent auditors

The independent auditors, PricewaterhouseCoopers, are prepared to continue in office in accordance with the provisions of S.160 (2) of the Companies Act, 1963.

### Transparency (Directive 2004/109/EC) Regulations 2007

As required by Statutory Instrument 277/2007 Transparency (Directive 2004/109/EC) Regulations 2007 the following sections of the Company's Annual Report shall be treated as forming part of this report:

- The Chairman's Statement and Chief Executive's Review on pages 2 to 5;
- Operating and Financial Review on pages 6 to 12 and the Principal Risks and Uncertainties on pages 13 to 15, which include a review of the price risk and cash flow risk, external environment, key strategic aims and performance measures;
- Details of earnings per ordinary share on page 70;
- Details of derivative financial instruments on page 74;
- Details of key performance indicators relating to employee matters, e.g. change in number of employees, on page 69.

## Directors' Report (*continued*)

### Events after the reporting date

In the second half of 2010, the Group faced gradually escalating industrial action from those members of our cabin crew who are members of the IMPACT union. These staff, who previously voted in favour of flying 850 hours a year, expressed dissatisfaction with some elements of the rosters designed to implement the agreement.

Matters came to a head in early 2011, which necessitated the hiring in of aircraft to maintain the flight schedule. On 4 February 2011, the Group reached a successful conclusion to its industrial dispute with the IMPACT cabin crew union on the full implementation of the Greenfield plan including changes in rosters to deliver 850 annual flying hours.

On 3 March 2011, the Group announced that a settlement had been agreed with the Irish Revenue Commissioners and as a result, the Group would reduce the exceptional provision announced on 24 February 2011, from €32.5 million to €29.5 million. The exceptional provision relates to PAYE, PRSI, interest, penalties and related costs arising from payments to 715 staff under a restructuring programme negotiated in 2008 at the Labour Relations Commission and implemented in 2009. The reduced exceptional provision represents the revised likely total cost of dealing with this matter.

### Financial risk management

Details regarding financial risk management are set out at Note 3 to the consolidated financial statements.

### Corporate Governance Statement – Year ended 31 December 2010

The Report of the Remuneration Committee on Directors' Remuneration is set out on pages 37 to 41. The Directors' Corporate Social Responsibility Statement is set out on pages 20 to 23.

The Company is committed to maintaining the highest standards of corporate governance and the Directors recognise their accountability to the Company's shareholders in this regard.

Under Statutory Instrument 450/2009 European Communities (Directive 2006/46/EC) Regulations 2009 and the Listing Rules of the Irish Stock Exchange (ISE), the Directors are required in this statement to describe how the principles of section 1 of the Combined Code on Corporate Governance (June 2008) published by the Financial Reporting Council in the UK have been applied by the Company in the year.

The Directors note that on 29 September 2010, the Irish Stock Exchange (ISE) amended the Listing Rules of the ISE to require companies with a primary equity listing to comply or explain against the provisions of the UK Corporate Governance Code. The UK Corporate Governance Code applies to accounting periods beginning on or after 29 June 2010. In addition, the ISE introduced the Irish Corporate Governance Annex to apply to accounting periods beginning on or after 17 December 2010.

A copy of the Combined Code on Corporate Governance (June 2008) and the UK Corporate Governance Code (June 2010) can be obtained from the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk). A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website, [www.ise.ie](http://www.ise.ie).

### Statement of compliance

Except as disclosed below, the Directors consider that the Company has complied with all relevant provisions of the Combined Code on Corporate Governance (June 2008) throughout the year. The Directors recognise the significant corporate governance code changes introduced in 2010 and it is the Directors intention in future annual reports to describe the extent of the Company's compliance with the principles of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

- **Rotation of Directors:** The Minister for Transport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to 3 Directors. These rights may not comply with the requirement under the Combined Code that the Appointments Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and the requirement under the Combined Code that all Directors be submitted for re-election at regular intervals. During 2010, Aer Lingus ESOP Trustee Limited had specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to 2 Directors. In December 2010, it ceased have any of these rights when it ceased to hold 1% of the issued share capital of the company.

### Board of Directors

#### Role

The duties of the Board and its committees are set out clearly in formal terms of reference which are reviewed regularly and state the items specifically reserved for decision by the Board.

The Board is responsible for the leadership and control of the Company. There are matters formally reserved to the Board for consideration and decision. The Board is responsible for establishing overall group strategy. It approves the Group's commercial strategy and the operating budget and monitors performance through the receipt of monthly operating information and financial statements. The approval of acquisitions is also a matter reserved for the Board. Similarly, there are authority levels covering capital expenditure which can be exercised by the Chief Executive or by the Chairman and Chief Executive jointly. Beyond these levels of authority, projects are referred to the Board for approval.

## Directors' Report (*continued*)

Other matters reserved to the Board include treasury policy; internal control, audit and risk management; remuneration of the non-executive Directors; pension schemes; corporate social responsibility and the appointment or removal of the Company Secretary.

The Board has delegated responsibility for the management of the Company, through the Chief Executive, to executive management. The Board also delegates some of its responsibilities to Board Committees, details of which are set out below.

### Membership

The Board is committed to a policy of refreshment and renewal in relation to the Board of Directors. During 2010, three new Directors were appointed to the Board (Mr Montie Brewer, Ms Nicola Shaw and Mr Andrew Macfarlane) and two Directors retired (Ms Anne Mills and Mr Ivor Fitzpatrick). Since 31 December 2010, one new Director has been appointed to the Board (Ms Mella Frewen). In addition Mr David Begg was appointed to the Board on 28 January 2011 following the expiry of his term of appointment as a director nominated by Aer Lingus ESOP Trustees Limited ("ESOT"). Mr Michael Johns also retired from the Board as an ESOT nominated Director on 28 February 2011. The Appointments Committee of the Board undertook a process involving other members of the Board and an external consultancy for the Board appointments made in 2010 and the appointment of Ms Mella Frewen in 2011.

The Board currently comprises fifteen Directors – two executive (Christoph Mueller, Chief Executive Officer and Andrew Macfarlane, Chief Financial Officer) and thirteen non-executive (including the Chairman). Detailed biographies of current Directors are set out on page 16.

During 2010, of the non-executive Directors, Mr Montie Brewer, Mr Thomas Corcoran, Mr Laurence Crowley, Mr Ivor Fitzpatrick, Ms Danuta Gray, Ms Anne Mills, Mr Thomas Moran and Ms Nicola Shaw were considered to be independent by the Board. During the entirety of 2010, at least half the Board, excluding the Chairman comprised non-executive Directors determined by the Board to be independent.

As at the date of this report, of the non-executive Directors, Mr Montie Brewer, Mr Thomas Corcoran, Mr Laurence Crowley, Ms Mella Frewen, Ms Danuta Gray, Mr Thomas Moran and Ms Nicola Shaw are considered to be independent by the Board. Therefore, as at the date of this report, at least half the Board excluding the Chairman, is comprised of non-executive Directors determined by the Board to be independent. It is the Company's intention to continue to review the composition of the Board to endeavour to continue to comply with this requirement in the 2010 UK Corporate Governance Code.

The Board considers that a Board comprising fourteen Directors is not so large as to be unwieldy and that between them the Directors bring the breadth and depth of skills, knowledge and experience that are required to lead the Group. The Board also considers that the Directors have sufficient time to discharge their responsibilities.

### Chairman

Mr Colm Barrington was appointed as Chairman on 3 October 2008. The Chairman was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board and the Chief Executive is responsible for running the business of Aer Lingus Group plc. The division of responsibilities between the Chairman and the Chief Executive is clearly established and has been set out in writing and approved by the Board. Throughout 2010, the roles of Chairman and Chief Executive were independent of each other.

The Chairman and the Company Secretary work closely together in planning a forward programme of Board meetings and establishing their agendas. As part of this process the Chairman ensures that the Board is supplied in a timely manner with information in a form and of a quality to enable it to discharge its duties. The Chairman encourages openness and debate at Board meetings. The Chairman holds a number of other directorships and the Board considers that these do not interfere with the discharge of his duties to Aer Lingus.

### Senior Independent Director

Mr Laurence Crowley has been the Senior Independent Director (SID) since his appointment on 9 January 2009. The role of the SID is clearly established and has been set out in writing and approved by the Board. The SID is available to all shareholders who have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive or Chief Financial Officer.

### Terms of appointment

All Board members have a service contract or letter of appointment with the Company. All service contracts with executive Directors have notice periods of 12 months or less.

The terms upon which each of the non-executive Directors has been appointed are set out in letters of appointment which reflect the form recommended by both the 2008 FRC Combined Code on Corporate Governance and the 2010 UK Corporate Governance Code. Subject to the requirement for annual election for all Directors as required by the 2010 UK Corporate Governance Code, which will apply at the annual general meeting to be held in 2012, it is the Company's policy that each non-executive Director will be appointed for a fixed period not exceeding three years (with the potential for a second three year term), subject to satisfactory performance and re-election at any annual general meeting where this is required. Recommendation to shareholders

## Directors' Report (*continued*)

for the election of non-executive Directors beyond six years will be made only after review by the Board. None of the non-executive Directors is a party to any service contract with the Company that provides for benefits upon termination.

The Minister for Transport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to three Directors. These rights may not comply with the requirements in both the Combined Code on Corporate Governance (June 2008) and the UK Corporate Governance Code (June 2010) that the Appointments Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and that all Directors be submitted for re-election at regular intervals. The Minister for Transport of Ireland is entitled to nominate up to three Directors for appointment. The number of Directors eligible to be nominated by the Minister for Transport of Ireland is dependent on the proportion of the total issued ordinary share capital held by the Minister for Finance Throughout 2010, the Minister for Transport of Ireland nominated his full entitlement of three Directors (Mr Francis Hackett, Dr Colin Hunt and Mr Leslie Buckley). During 2010, Aer Lingus ESOP Trustee Limited had specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to 2 Directors and it exercised these rights by nominating its full entitlement of two Directors (Mr David Begg and Mr Michael Johns) (the "ESOT Nominees"). In December 2010, it ceased have any of these rights when it ceased to hold 1% of the issued share capital of the company.

Further information is given in the biographies of current Directors on page 16 of the skills and experience of the Minister's Nominees.

### Retirement and re-election

In accordance with the Articles of Association, one-third of the Directors who are subject to retirement by rotation retire from office at each AGM. Until the annual general meeting to be held in 2012, all Directors, with the exception of those nominated by the Minister for Transport of Ireland (acting through the Minister for Finance of Ireland), are required to retire by rotation every three years. With effect from the annual general meeting to be held in 2012, all Directors, with the exception of those nominated by the Minister for Transport of Ireland (acting through the Minister for Finance of Ireland), will be required to retire by rotation every year. All retiring Directors may offer themselves for re-election. Directors nominated by the Minister for Transport of Ireland are not subject to these provisions in relation to retirement.

It is the Board's policy to regularly review the chairmanship of its committees. Appointments to committees are for a period of up to three years, which may be extended for a further three-year period provided

the Director is re-elected by shareholders and remains independent, or in the case of some committees, a majority of the Directors on the committee remain independent. A Director being a member of the same Board committee for more than six years may be permitted only after review by the Board. Recommendations to shareholders for the re-election of non-executive Directors for terms beyond six years will be made only after review by the Board.

### Induction and development

New Directors are comprehensively briefed on the Company and its operations, including the provision and extensive induction materials on appointment. An induction process is clearly established and has been set out in writing and approved by Board. In addition, to aid their ongoing development and understanding of the business, Directors engage with the executive and senior management teams.

There is in place a procedure under which Directors, in furtherance of their duties, are able to take professional advice, if necessary, at the Company's expense.

The Company Secretary is responsible for ensuring that Board procedures are followed and all Directors have access to his advice and services. The Company Secretary ensures that the Board members receive appropriate training as necessary. The Company Secretary is responsible for advising the Board on all corporate governance matters.

The Company has an insurance policy in place which insures the Directors in respect of legal action taken against them in respect of their reasonable actions as officers of the Company.

### Meetings

The Board has a fixed schedule of meetings each year and may meet more frequently as required. There were 10 scheduled Board meetings in the year. In addition there were 6 conference call meetings which were not pre-scheduled. Therefore, there were a total of 16 Board Meetings held in 2010. Details of Directors' attendance at these meetings is outlined in the table on page 34. For regular Board meetings, the agenda will usually comprise reports from the Chief Executive, Chief Financial Officer and executive management. The practice is to have the agenda and supporting papers circulated to the Directors seven days ahead of each meeting. It is inevitable that there will be occasions when circumstances arise to prevent Directors from attending meetings. In such circumstances, it is practice for the absent Director to review the Board papers with the Chairman and convey any views on specific issues. It should also be noted that the time commitment expected of non-executive Directors is not restricted to Board meetings. All of the Directors are to be available for consultation on specific issues falling within their particular fields of expertise. The Chairman and non-executive Directors meet at least annually as a group without the

## Directors' Report (*continued*)

executive Directors present. In addition a further meeting each year consists of the Senior Independent Director and the other non-executive Directors, without the Chairman being present.

### Performance evaluation

The Board and its committees undertake an annual evaluation of their performance of how well they are functioning as an effective board applying best principles of governance, whether each director continues to contribute effectively and demonstrate commitment to the role and to identify areas for development. The Chairman's performance is evaluated by the Senior Independent Director and the non-executive Directors at least once a year. In addition to being evaluated by the Chairman, the Directors are also obliged to assess their own performance.

### Remuneration

Details of Directors' remuneration is set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 37 to 41.

### Share ownership and dealing

Details of the shares held by Directors are set out in Table 2.2 on page 41. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under the policy, Directors are required to obtain clearance from the Chairman before dealing in company shares. Directors and senior management are prohibited from dealing in company shares during designated prohibited periods and at any time which the individual is in possession of price-sensitive information.

### Board committees

The Board has established five permanent committees to assist in the execution of its responsibilities. These are the Audit Committee, the Remuneration Committee, the Appointments Committee, the Safety Committee and the Risk Committee. Ad hoc committees are established from time to time to deal with specific matters. Terms of reference for each of the permanent committees have been documented and approved by the Board. Copies are available on request from the Company Secretary.

All Chairmen of the committees attend the Company's AGM and are available to answer questions from the shareholders.

#### *Audit Committee*

The Board has established an Audit Committee consisting of at least three non-executive Directors considered by the Board to be independent. Until June 2010 the Audit Committee consisted of Mr Ivor Fitzpatrick (Chairman), Mr Laurence Crowley and Ms Danuta Gray. In June 2010, Ms Nicola Shaw was appointed as a member of the Committee. Upon Mr Fitzpatrick's retirement on 31 December 2010, Mr Crowley assumed the chairmanship of the Committee. Mr Crowley is a Chartered Accountant and is the Committee's financial expert. In

addition the other members of the Committee have recent and relevant financial experience. The Audit Committee met nine times during the year. Attendance at meetings held is set out in the table on page 34.

The main role and responsibilities of the Audit Committee are set out in written terms of reference, which encompass those set out in the Combined Code on Corporate Governance Code (June 2008), and Statutory Instrument 220/2010 European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010, including:

- a. to monitor the statutory audit of the annual and consolidated accounts and the financial reporting process
- b. to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewing significant financial judgments contained therein;
- c. to review and monitor the effectiveness of the Company's internal financial controls and its systems of internal controls, internal audit and risk management systems (the review of internal financial control and risk management systems has been delegated to the Risk Committee to complete. The Risk Committee reports to the Audit Committee and the Board in this regard);
- d. to monitor and review the results of the Company's internal audit function and the annual internal audit plan;
- e. to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors and to approve the terms of engagement of the external auditors;
- f. to monitor and review the external auditors' independence and objectivity (in particular the provision of additional services to the audited entity) and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements;
- g. to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board;
- h. to report to the Board, identifying any matters in respect of which it considers action or improvement is needed and making recommendations as to the steps to be taken; and
- i. to review the Company's whistleblowing policy.

The Audit Committee discharged its obligations throughout the year as follows:

- Reviewed internal and external audit plans and approved internal audit plans in advance of audit;
- Met with and received reports from internal and external auditors, including the report of the external auditor on any key matters arising from the statutory audit and on any material weaknesses in internal control in relation to the financial reporting process;

## Directors' Report (*continued*)

- Monitored and reviewed internal and external auditors performance;
- Reviewed the independence of the external auditors;
- Considered whether or not to recommend the re-appointment of the external auditors;
- Reviewed the half-year report, the annual report and accounts; and
- Reviewed reports of Risk Committee on Group Corporate Risk Assessment Process.

The committee has a process in place to ensure that the independence of the audit is not compromised, which includes monitoring the nature and extent of services provided by the external auditors through its annual review of fees paid to the external auditors for audit and non-audit work. Non-audit services during the year related to taxation. The committee believed that PwC were best placed to provide these services due to their knowledge of the Group.

The committee also reviews the safeguards which the external auditors have put in place to ensure their objectivity and independence in accordance with professional and regulatory requirements.

### *Remuneration Committee*

The Remuneration Committee of the Board comprises at least four independent non-executive Directors. Until March 2010 the Committee members were Ms Danuta Gray (Chairman), Mr Colm Barrington, Mr Tom Corcoran, Mr Ivor Fitzpatrick and Ms Anne Mills. Ms Mills ceased to be a member of the Remuneration Committee upon her retirement on 21 March 2010. In June 2010, Ms Nicola Shaw was appointed as a member of the Committee. Mr Ivor Fitzpatrick ceased to be a member of the Committee upon his retirement on 31 December 2010. Mr Colm Barrington was determined by the Board to be independent on his appointment to the Board and therefore his membership of the Remuneration Committee is in compliance with the requirements set out in the Combined Code on Corporate Governance Code (June 2008).

The Remuneration Committee has delegated responsibility for setting remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. It also determines the conditions of employment of the senior management team. It met six times during the year. Attendance at meetings held is set out in the table on page 34.

The Remuneration Committee's principal duties in relation to Directors' remuneration include:

- a. to determine and agree with the Board the framework or board policy for the remuneration of the Chief Executive, the Chairman of the Board, the executive Directors and the Company Secretary, and such other senior management members as it is designated to consider;
- b. to set remuneration policy so as to ensure that senior management are provided with appropriate incentives to encourage performance and are rewarded for their individual contributions to the success of the Company in a fair and responsible manner;
- c. to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes; and
- d. to monitor and approve the total remuneration package of the Chairman, each executive Director and relevant senior management members, within the terms of the agreed policy.

The Remuneration Report for year ended 31 December 2010 is set out on pages 37 to 41. At the Annual General Meeting held on 18 June 2010, shareholders were asked to receive and consider the Remuneration Report for year ended 31 December 2009. This is often referred to as a 'Say on Pay' resolution. The resolution was passed by shareholders. While it was not mandatory to put such a resolution to shareholders, it was emerging best practice to do so and its inclusion reflected the Group's commitment to continuing to enhance its corporate governance practices. A 'Say on Pay' resolution regarding the Remuneration Report for year ended 31 December 2010 will also be out to shareholders at the forthcoming Annual General Meeting.

### *Appointments Committee*

The Appointments Committee of the Board comprises five non-executive Directors, a majority of whom are independent non-executive Directors. In 2010, the Appointments Committee consisted of Mr Laurence Crowley (Chairman), Mr Colm Barrington, Dr Colin Hunt, Mr Tom Moran and Mr Michael Johns. The role of the Appointments Committee is to lead the process for considering Board appointments. The Appointments Committee may not be chaired by the Chairman of the Board on any matter concerning the succession to the chairmanship of the Board. The Appointments Committee met four times during the year. Attendance at the meetings held is set out in the table on page 34.

The Appointments Committee's terms of reference include the following:

- a. to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- b. to give full consideration to succession planning for Directors and senior management, taking into account the challenges and opportunities facing the Company; and
- c. to be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

## Directors' Report (*continued*)

Before recommending an appointment, the Committee will evaluate the balance of skills, knowledge and experience of the Board.

Mr Montie Brewer, Ms Nicola Shaw and Mr Andrew Macfarlane were appointed to the Board in 2010. Since 31 December 2010, one new Director has been appointed to the Board (Ms Mella Frewen). In addition Mr David Begg was appointed to the Board on 28 January 2011 following the expiry of his term of appointment as a director nominated by Aer Lingus ESOP Trustees Limited ("ESOT"). Mr Michael Johns also retired from the Board as an ESOT nominated Director on 28 February 2011. All were nominated for appointment based on the skills they would bring to the Board. Detailed biographies of these Directors are set out on page 16. The Appointments Committee undertook a process involving other members of the Board and an external consultancy for the Board appointments made in 2010 and the appointment of Ms Mella Frewen in 2011.

### *Safety Committee*

The Board has a Safety Committee, which assists the Board in discharging its responsibility for safety, including ensuring that adequate safety regulations and procedures are in place across the Group, that such regulations and procedures are complied with and reviewed from time to time, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed. Until March 2010, the Safety Committee was composed of Mr Francis Hackett (Chairman), Mr Colm Barrington, Mr David Begg and Ms Anne Mills. Ms Mills ceased to be a member of the Safety Committee upon her retirement on 21 March 2010. In August 2010, Mr Christoph Mueller was appointed as a member of the Committee. The Committee met four times during the year. Attendance at meetings held is set out in the table on page 34.

### *Risk Committee*

The Board has a Risk Committee, which was established to consider the significant risks facing the Group (other than those relating to safety) and the manner in which they are addressed, and to recommend to the Board the most effective way of assessing these risks. The Risk Committee also conducts, on behalf of the Audit Committee and the Board, an annual review of Aer Lingus' system of internal financial control and risk management systems and reports to the Audit Committee and the Board in this regard. Until June 2010, the Risk Committee comprised Dr Colin Hunt (Chairman), Mr David Begg, Mr Tom Corcoran, Mr Michael Johns and Mr Tom Moran. In June 2010, Mr Montie Brewer was appointed as a member of the Committee. The Risk Committee has reviewed and approved the Company's Corporate Risk Assessment Process for 2010 and reported to the Audit Committee and Board in this regard. The Risk Committee met five times during the year. Attendance at meetings held is set out in the table on page 34.

## Communications with shareholders

The Company attaches considerable importance to shareholder communication and has established an Investor Relations Programme. This programme includes the following elements:

- Regular dialogue with institutional investors, fund managers and analysts on key business issues through meetings with CEO, CFO and senior management;
- Investor roadshows and conference calls;
- Issuance of monthly traffic statistics;
- Issuance of Annual Report and Half Yearly Report;
- Issuance of preliminary results announcements and interim management statements;
- Investor Relations section on website, including full text of financial results news releases and results presentations; and
- At the AGM, individual shareholders are able to question the Chairman and the Board.
- The Company also responds throughout the year to numerous queries from shareholders on a wide range of issues.

In addition, the Board has taken the following steps to ensure that its members (particularly non-executive Directors) develop an understanding of the views of major shareholders:

- The Chairman ensures that the views of shareholders are communicated to the Board as a whole and also discusses governance and strategy with major shareholders where appropriate;
- The Chairman and Senior Independent Director are available to attend meetings with shareholders to develop a balanced understanding of their views and concerns;
- Non-executive Directors are available to attend meetings where requested by major shareholders.

## Description of Internal control and risk management systems

In addition to the description below, the following sections of the Company's Annual Report shall be treated as forming part of the Board's description of the main features of the Group's internal control and risk management systems in relation to the process for preparing the Company's consolidated accounts:

- The description of the principal risks and uncertainties which the Group faces on pages 13 to 15;
- The Financial Risk Management policies in place to address these are set out in Note 3 to the consolidated financial statements.;
- The review of the price risk and cash flow risk in Operating and Financial Review on pages 6 to 12;

## Directors' Report (*continued*)

- Details regarding financial risk management are set out at Note 3 to the consolidated financial statements on page 61;
- The description of how the Audit Committee discharged its obligations throughout the year on page 30; and
- The description of the Risk Committee on page 32.

### Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

As recommended by the revised guidance for Directors on internal controls (The Turnbull Guidance, October 2005) there is an ongoing Corporate Risk Assessment Process for identifying, evaluating and managing the significant risks faced by the Group, under financial, operational and compliance controls and risk management systems. The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and financial statements and its outputs are relied upon for the purpose of preparing the Group's consolidated accounts. The process involves the Board considering:

- The nature and extent of the key risks facing the Group;
- The likelihood of these risks occurring;
- The impact on the Group should these risks occur;
- The actions being taken to manage these risks at the desired level; and
- The procedures in place to monitor these risks.

The risks facing the Group are regularly reviewed by management and the Risk Committee (as delegated to it by the Audit Committee, whose terms of reference require it to keep under review the effectiveness of the Company's internal controls and risk management systems).

In accordance with the process outlined above, the Board confirms that it has conducted an annual review of the effectiveness of the internal control systems in operation and that it has approved the reporting lines to ensure the ongoing effectiveness of the internal controls and reporting structures. This review included a review of all material controls, including financial, operational and compliance controls and risk management systems.

In addition to the matters described above, the other elements of the Group's internal control and risk management systems in relation to the process for preparing the Company's consolidated accounts are as follows:

- Clearly defined organisation structures and lines of authority;
- Employment of competent persons;

- A strong and independent Board that meets regularly during the year, with separate Chairman and Chief Executive roles;
- Corporate policies for financial reporting, treasury and financial risk management, information technology and security, project appraisal and corporate governance;
- Board of Directors approval of all major strategic decisions;
- Clearly defined process and information system for controlling capital expenditure including use of appropriate authorisation levels;
- Long term business plan;
- Detailed annual budget process, with budget reviewed and approved by Board;
- Monthly monitoring of historic and forecast performance against budget which is reported to the Board;
- Comprehensive system of internal financial reporting which includes preparation of detailed financial statements and key performance indicators on a monthly basis and the preparation of the year end consolidated financial statements;
- An internal audit function which reviews and reports on key business processes and controls;
- Corporate compliance monitoring; and
- An audit committee which approves audit plans and deals with significant control issues raised by internal or external audit; and
- Regular communication with external auditors.

Any system of internal control can provide only reasonable and not absolute assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system operated effectively throughout the financial year and up to the date that the financial statements were signed.

### Going concern

After making enquiries the Directors consider that the Company has adequate resources to continue operating for the foreseeable future. For this reason they have continued to adopt the going concern basis in preparing the financial statements.

### Accountability and audit

A statement relating to the Directors' responsibilities in respect of the preparation of the financial statements is set out on page 25 with the responsibilities of the Company's Independent Auditors outlined on page 42.

Directors' Report (*continued*)

Table 1.1 Attendance at Board and Board Committee meetings in the year ended 31 December 2010

Name	Position	Board (Scheduled)	Board (Conference Call)	Committees				
				Audit	Remuneration	Appointments	Safety	Risk
Colm Barrington	Chairman	10/10	6/6		5/6	4/4	4/4	
David Begg	Director	8/10	4/6				3/4	5/5
Montie Brewer <sup>(1)</sup>	Director	8/8	6/6					3/3
Leslie Buckley	Director	7/10	4/6					
Thomas Corcoran	Director	9/10	4/6		4/6			4/5
Laurence Crowley	Director	10/10	6/6	9/9		4/4		
Ivor Fitzpatrick <sup>(2)</sup>	Director	10/10	6/6	9/9	6/6			
Danuta Gray	Director	10/10	2/6	7/9	6/6			
Francis Hackett	Director	10/10	5/6				4/4	
Colin Hunt	Director	10/10	6/6			4/4		5/5
Michael Johns	Director	9/10	4/6			4/4		5/5
Andrew Macfarlane <sup>(3)</sup>	Chief Financial Officer	2/2	2/2					
Anne Mills <sup>(4)</sup>	Former Director	3/3	2/2		2/2		1/1	
Thomas Moran	Director	10/10	5/6			4/4		5/5
Christoph Mueller <sup>(5)</sup>	Chief Executive Officer	10/10	6/6				1/1	
Nicola Shaw <sup>(6)</sup>	Director	8/8	4/6	3/4	2/3			

The attendance statistics are outlined above in the format "A/B", where 'A' represents the number of meetings attended by the Director and 'B' represents the total number of meetings held. Of the sixteen Board meetings held in 2010, ten were scheduled meetings and six were conference call meetings.

(1) Mr Montie Brewer was appointed to the Board on 25 January 2010 and hence was eligible to attend a maximum of fourteen Board meetings 2010. He was appointed to the Risk Committee on 18 June 2010 and hence was eligible to attend a maximum of three Risk Committee meetings in 2010.

(2) Mr Ivor Fitzpatrick retired from the Board on 31 December 2010 and was eligible to attend all board, Audit Committee and Remuneration Committee meetings in 2010.

(3) Mr Andrew Macfarlane was appointed to the Board on 3 October 2010 and hence was eligible to attend a maximum of four Board meetings in 2010. Prior to his appointment as an Executive Director, Mr Macfarlane attended all Board meetings in 2010 in his capacity as Interim Chief Financial Officer.

(4) Ms Anne Mills retired on 21 March 2010 upon the expiry of her term of office and hence was eligible to attend a maximum of five Board meetings, two Remuneration Committee meetings and one Safety Committee Meeting in 2010.

(5) Mr Christoph Mueller was appointed to the Safety Committee on 20 August 2010 and hence was eligible to attend a maximum of one Safety Committee meeting in 2010.

(6) Ms Nicola Shaw was appointed to the Board on 25 January 2010 and hence was eligible to attend a maximum of fourteen Board meetings 2010. She was appointed to the Audit Committee and Risk Committee on 18 June 2010 and hence was eligible to attend a maximum of four Audit Committee meetings and three Remuneration Committee meetings in 2010.

## Directors' Report (*continued*)

### General meetings

The Company's Annual General Meeting (AGM), which is held in Ireland, affords individual shareholders the opportunity to question the Chairman and the Board. It is the Company's policy for all Directors to attend the AGM. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 20 working days before the meeting. At the meeting, resolutions are voted on by means of a show of hands. The votes of shareholders present at the meeting are added to the proxy votes received and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least twenty-one clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at fourteen clear days' notice.

A quorum for a general meeting of the Company is constituted by seven or more shareholders entitled to vote, each being a member or a proxy for a member or a duly authorised representative of a corporate member. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. To be passed, a special resolution requires a majority of at least 75% of the votes cast.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies record dates for general meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notes to the Notice of a general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the notes to the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least 5% of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least 3% of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion in the agenda of a general meeting, subject to any contrary provision in Irish company law.

The Group's website, [www.aerlingus.com](http://www.aerlingus.com), contains information in respect of the Company's annual general meeting.

### Regulation 21 of European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006)

*Information Required under Regulation 21(2)(c), (d), (f), (h) and (i) of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006)*

For the purpose of Regulation 21(2)(c), (d), (f), (h) and (i) of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 24 Substantial Interests in Share Capital, 28 (Terms of Appointment), 29 (Retirement and Re-election), 39 (Non-Executive Directors, Executive Directors and Service Contracts), 26 (Issue and Purchase of own shares and Share Ownership Restrictions), 82 (Called-Up Share Capital) and 82 to 85 (Share Premium, Capital Conversion Reserve Fund, and Other Reserves) are deemed to be incorporated in this Report. The Company's rules in respect of the appointment and replacement of directors of the Company and amendment of the Company's Articles of Association are set out in the Company's Memorandum and Articles of Association and the relevant Articles of the Company's Memorandum and Articles of Association are hereby incorporated by reference in this Corporate Governance Statement.

For the purpose of Regulation 21 of European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 69 (Employee Benefits), page 85 (Employee Participation and Pensions and other Post Employment Benefits) and page 83 (Long Term Incentive Plan) are deemed to be incorporated in this Report together with the information given in the Corporate Governance Statement above.

The Chief Executive is entitled, having obtained the prior consent of the Remuneration Committee, to terminate his employment within six months of a change of control if the Chief Executive has reasonable grounds to contend that such change of control has resulted or will result in a diminution of his powers, duties or functions in relation to the Company or if, as a consequence of the change in control, a contract of employment which is less beneficial to the Chief Executive is offered to the Chief Executive which he declines to agree and upon such termination the Company is obliged to pay the Chief Executive an amount equal to one years basic salary for the financial year of the Company immediately preceding such termination. In the absence of the Remuneration Committee giving its consent, the Company is not obliged to make the foregoing payment to the Chief Executive in the circumstances described.

## Directors' Report (*continued*)

The Group has signed an agreement with Dublin Airport Authority plc (the "DAA") for hangarage at Dublin Airport, under which one of the requirements of the DAA is that the agreement may be terminated by the DAA if a change in control occurs with respect to the Company which results in the Company and its associated companies controlling a majority of hangarage space (measured by floor area) at Dublin Airport.

### **Directors' statement pursuant to the Transparency Regulations**

Each of the Directors, whose names and functions are listed on page 16 confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position of the Company and the Group and of the profit of the Group: and;
- the Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board of Directors

**C Barrington**

*Chairman*

**C Mueller**

*Director*

25 March 2011

# Report of the Remuneration Committee on Directors' Remuneration

## Unaudited information

### The Remuneration Committee

The Remuneration Committee of the Board comprises at least four independent non-executive Directors. Until March 2010 the Committee members were Ms Danuta Gray (Chairman), Mr Colm Barrington, Mr Tom Corcoran, Mr Ivor Fitzpatrick and Ms Anne Mills. Ms Mills ceased to be a member of the Remuneration Committee upon her retirement on 21 March 2010. In June 2010, Ms Nicola Shaw was appointed as a member of the Committee. Mr Ivor Fitzpatrick ceased to be a member of the Committee upon his retirement on 31 December 2010.

The Committee determines, within the agreed terms of reference, the remuneration policy in respect of the executive Directors, the Chairman of the Board, the Company Secretary and the other members of senior management and monitors and approves these total remuneration packages within the terms of the agreed policy. The Committee is also required to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes.

In making its decisions the Committee can seek advice from the Chief Executive who is invited to attend meetings of the Committee as and when appropriate. The Remuneration Committee can obtain external advice from independent firms of remuneration consultants where necessary.

The remuneration of non-executive Directors is a matter for the Chairman and the executive Directors. No Directors or managers are involved in any decisions as to their own remuneration.

### Remuneration Policy

The aim of the Company's remuneration policy is to ensure that executive and senior management are provided with appropriate incentives to encourage performance that delivers shareholder value and to reward them for their individual contributions to the success of the Company in a fair and responsible manner.

In 2010, the Remuneration Committee engaged Towers Watson as its external remuneration consultants and conducted a review of the Company's executive remuneration strategy for 2010 and future years. The review developed an approach to remuneration that would reinforce executive and senior management focus on the achievement of the Company strategy and which is aligned with the interests of shareholders. The incentive structures are designed to reinforce both short and long term behaviour to align with the Company's strategy and the long term success of the business. As part of the review, the Company's executive and senior management remuneration was benchmarked versus both public and private companies in Ireland and versus peer group airlines.

### Non-Executive Directors

#### *Non-Executive Directors Fees*

Non-executive Directors are remunerated by way of Directors' fees. Throughout the year ended 31 December 2010, non-executive Directors' fees were set at €32,400 per annum, the Chairman's fees were set at €126,000 per annum and an additional fee of €7,200 per annum was payable to the Chairman of the Audit Committee. The aggregate of non-executive Director fees paid in 2010 was lower than that paid in 2009.

#### Concession Travel

Directors and dependent members of their families can avail of concession travel on Aer Lingus services. The concession applies to their travel on vacation and is on a space available basis. It is not available for their own individual business purposes. The Company has obtained the approval of the Office of the Revenue Commissioners for the level of reimbursement charge to be applied to such concession travel to defray the marginal cost to the Company of the seat. Where less than the agreed amount or no amount is paid by the director, the concession is liable to BIK tax.

### Executive Directors

Mr Christoph Mueller (Chief Executive Officer) was an executive Director throughout 2010. The remuneration package for Mr Christoph Mueller (Chief Executive Officer) as executive Director consists of basic salary (subject to annual review), annual performance related bonus, pension contribution, a conditional share award over shares in the Company, options over shares in the Company, shares awarded under the Company's long term incentive plan (LTIP), health insurance and car allowance. Mr Mueller does not receive Directors' fees.

Mr Andrew Macfarlane (Chief Financial Officer) was appointed as an executive Director on 3 October 2010. The remuneration package for Mr Andrew Macfarlane (Chief Financial Officer) as executive Director consists of basic salary (subject to annual review), annual performance related bonus, pension contribution, shares awarded under the Company's long term incentive plan (LTIP), health insurance and car allowance. Mr Macfarlane does not receive Directors' fees.

Further details of the payments and benefits received by the executive Directors are set out in Table 2.1.

### Basic Salary Reviews

The basic salaries of executive Directors are reviewed annually having regard to personal performance, company performance, changes in responsibilities and market practice.

## Report of the Remuneration Committee on Directors' Remuneration (*continued*)

### Performance Related Bonuses

Performance related bonuses are payable to executive Directors and senior management for meeting clearly defined and stretching annual profit targets and strategic goals set and monitored by the Remuneration Committee. In setting meaningful targets for the 2010 performance related bonuses, the Remuneration Committee was mindful of the need to restore the Group to profitability while also recognising the importance of incentivising and retaining management to drive the business forward.

The annual bonus performance targets for executive Directors and certain senior management were determined based on financial criteria (with an 80% weighting) to align with the goal of restoring the Company to profitability and non-financial criteria divided into two categories (each with a 10% weighting), based on customer and people targets, which are key to the long-term success of the Group. The annual performance related bonuses were subject to a cap of 100% of basic salary for the executive directors and 40% and 30%, respectively for the other two categories of senior management. Following an annual review of the Chief Executive Officer's remuneration, his annual performance related bonus opportunity was adjusted from the first anniversary of the date of commencement of his employment. Therefore, for the final third of 2010, the Chief Executive Officer's annual performance related bonus opportunity was adjusted to 150% of basic salary. The financial performance criteria related to operating profit, revenue, operating savings and Greenfield Cost Reduction Program savings. The Group was successful in achieving its targets for the 2010 financial year. As it performed above expectations in the 2010 financial year, achieving a significant turnaround in its profitability, annual bonuses were paid at the between target and stretch level. No deferment periods applied to the annual performance related bonuses.

In 2011, the Group will continue to incentivise Executives and senior management with annual performance related bonus opportunities. In addition the Group plans to introduce a short-term bonus opportunity to incentivise and further support the Company's recovery, but may impose a deferment period in respect of any such bonuses earned.

In 2009, a provision was made for employee gainsharing incentives for the Greenfield Cost Reduction Program. Executive management are not eligible to participate in these gainsharing incentives. The funding for the gainsharing incentives was contingent on a minimum level of profitability in a given fiscal year and the achievement of the Greenfield Cost Reduction Program targets. Both the required minimum level of profitability and the Greenfield Cost Reduction Program targets were achieved in 2010 and therefore a sum of €6.25 million is payable to employees under these arrangements.

### Long Term Incentive Plan

Conditional awards of shares are granted to executive Directors under the Company's LTIP. The LTIP is a share based performance award scheme which provides for the vesting of shares subject to the achievement of minimum performance objectives, as specified by the Remuneration Committee. In order to promote the long term sustainability of the Company, the performance conditions are measured over a three-year period and are linked to the Company's long term value creation. The performance objectives for the awards granted in 2007, 2008 and 2009 consisted of both Total Shareholder Return (TSR) and Compound Growth in EBITDAR.

TSR measures the change in value for shareholders arising from changes in the Company's share price plus the returns that would arise for shareholders if dividends were reinvested in the Company's shares on the relevant ex-dividend date, net of corporation tax and but before income tax. For 2007, 2008 and 2009 the TSR element is assessed over a three year period against a peer group of European airlines. For 2007, 2008 and 2009 the EBITDAR element is assessed over a three year period by reference to the EBITDAR figures in the Company's Consolidated Financial Statements.

The performance objectives for the awards granted in 2007 were not achieved and accordingly the 2007 awards lapsed.

As part of its review of the Company's executive remuneration strategy for 2010 and future years, the Remuneration Committee modified the performance objectives for the awards granted in 2010. The 2010 performance objectives consist of Total Shareholder Return (TSR) measured 50% against a comparator group of European airlines and 50% against the companies in the ISEQ general index. The following financial underpin also applies: positive cumulative EBITDAR (before exceptional items as determined by the Remuneration Committee) of, or in excess of €100 million during the performance period and positive EBITDAR as shown in the Company's financial accounts in the final year of the performance period (before exceptional items as determined by the Remuneration Committee)

The maximum award under the LTIP is 150% of base salary. The maximum number of shares that can vest is set at 125% of the maximum salary multiple. Awards under the LTIP can be made on an annual basis at the discretion of the Remuneration Committee. There is no requirement in the LTIP for shares to be held for a period following vesting.

## Report of the Remuneration Committee on Directors' Remuneration (*continued*)

### Conditional Share Award in respect of Mr. Mueller and Share Option Grant

On 7th September 2009, Mr Christoph Mueller was granted a conditional award in respect of 500,000 shares with effect from 8th September. The conditional share award will vest on 1st September 2011 subject to Mr. Mueller remaining in the employment of the group on that date. Benefits under the conditional share award will not be pensionable.

As announced on 9th September 2009, Mr Christoph Mueller was granted share options in respect of 1,500,000 shares in the Company with effect from 8th September. The share options will vest and become exercisable provided the closing price of the Company's shares remain above certain fixed prices (detailed below) for at least 25 of the 40 days prior to certain specific dates and further details relating to the options are set out in Table 2.3 below. The Remuneration Committee selected performance criteria which it believes are sufficiently stretching to reasonably incentivise Mr Mueller to deliver value for Aer Lingus shareholders.

Both the conditional share award and the share option grant were disclosed in the Remuneration Report contained in last year's annual report, which Remuneration Report was approved by shareholders at last year's annual general meeting.

### Service Contracts

The Company has a service contract or letter of appointment with all Board members.

### Executive Directors

All service contracts with executive Directors are on similar terms and have notice periods of 12 months or less and comply with the recommendations in regard to payments on termination in paragraph B.1.6 of the 2008 FRC Combined Code and paragraph 3.5 of the EU Commission 2009 Guidance on Remuneration.

### Non-executive Directors

The terms upon which each of the non-executive Directors have been appointed are set out in letters of appointment which reflect the form recommended by the 2008 FRC Combined Code. It is the Company's policy that each non-executive Director will be appointed for a fixed period not exceeding three years (with the potential for a second three year term), subject to satisfactory performance and re-election at any Annual General Meeting where this is required. None of the non-executive Directors is a party to any service contract with the Company that provides for benefits upon termination.

### Employee Share Participation

Since April 2003, the Group has operated a Revenue approved share ownership plan consisting of a Revenue approved employee share ownership trust and a Revenue approved profit sharing scheme.

On 21 December 2010 a lump-sum payment was made to the Employee Share Ownership Trust ("ESOT") in order to extinguish an obligation to pay the ESOT a share of annual profits. At the time, the ESOT held 12.5% of the Group's share capital, in trust for some 4,700 current and former employees.

The obligation to pay profit share from profit before taxation and exceptional items was established at the time of the Group's IPO in 2006 and would have remained in place until the ESOT had received sufficient cash from the company to pay off approximately €25 million of debt that it had borrowed in 2006. It made economic sense to pre-pay the profit share and extinguish the debt because of the very substantial interest burden incurred by the ESOT. This interest was effectively at the company's expense, funded through the profit share mechanism. On 21 December 2010 the Group made a payment to the ESOT sufficient to discharge its debt and, as a consequence, the obligation to pay profit share was extinguished. By making this payment to the ESOT, a liability which was not within the Group's control has been capped and at the same time the free float of the Company has significantly increased.

See Note 28 to the financial statements for more details.

### Directors' remuneration

Disclosures regarding Directors' remuneration have been drawn up on an individual Director basis in accordance with the requirements of both the 2008 FRC Combined Code and the Irish Stock Exchange. In addition to complying with the existing disclosure requirements, in future Remuneration Reports, the Remuneration Committee intends to include a more forward looking perspective in relation to its remuneration policy.

### Directors pension benefits

Information regarding the pension benefits of the Directors are outlined in Table 2.1. The Company is required to make a contribution at a rate of 25% of basic salary to pension arrangements as are agreed with each of Mr Christoph Mueller and Mr Andrew Macfarlane.

### Directors shareholdings

The interests of the Directors in office at 31 December 2010 in the shares of the Group are outlined in Table 2.2.

Report of the Remuneration Committee on Directors' Remuneration (*continued*)**Audited information****Table 2.1 Individual Directors' remuneration for the year ended 31 December 2010**

		Basic salary and fees €'000	Pension contribution €'000	Performance related bonus	Other benefits (1) €'000	Total 2010 €'000	Total 2009 €'000
Christoph Mueller	(2)	475	119	483	55	1,132	171
Andrew Macfarlane	(3) (4) (5)	80	26	94	9	209	-
		<b>555</b>	<b>145</b>	<b>577</b>	<b>64</b>	<b>1,341</b>	<b>171</b>
Colm Barrington		126	-	-	-	126	142
David Begg		32	-	-	-	32	36
Montie Brewer	(6)	30	-	-	-	30	-
Leslie Buckley		32	-	-	-	32	24
Thomas Corcoran		32	-	-	-	32	36
Laurence Crowley		32	-	-	-	32	36
Ivor Fitzpatrick	(7)	40	-	-	-	40	45
Danuta Gray		32	-	-	-	32	36
Francis Hackett		30	-	-	-	30	36
Colin Hunt		32	-	-	-	32	36
Michael Johns		32	-	-	-	32	36
Anne Mills	(8)	8	-	-	-	8	36
Thomas Moran		32	-	-	-	32	36
Nicola Shaw	(9)	30	-	-	-	30	-
		<b>520</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>520</b>	<b>535</b>
<b>Total</b>		<b>1,075</b>	<b>145</b>	<b>577</b>	<b>64</b>	<b>1,861</b>	<b>706</b>

(1) Other benefits relate principally to car allowances, medical/life assurance and the reimbursement of certain relocation expenses.

(2) In addition to the amounts above, an amount has been charged to the income statement in relation to the estimated cost of shares which could vest under the share option award and conditional share award granted to Mr. Mueller prior to his appointment as a director and in relation to the estimated cost of shares which could vest under the 2010 LTIP. In respect of the share option award, the conditional share award granted to Mr. Mueller prior to his appointment as a director and the 2010 LTIP award to Mr. Mueller, an amount of €348,907 has been charged.

(3) Mr Andrew Macfarlane was appointed as a Director on 3 October 2010.

(4) In respect of the 2010 LTIP award to Mr. Macfarlane, an amount of €50,184 has been charged in 2010.

(5) Mr Macfarlane voluntarily agreed to reduce his basic salary by approximately 23%. The figure set out in the table under 'Basic salary and fees' reflects the voluntarily reduced basic salary. Other elements of remuneration payable to Mr Macfarlane are calculated by reference to his unreduced basic salary.

(6) Mr Montie Brewer was appointed as a Director on 25 January 2010.

(7) Mr Ivor Fitzpatrick retired as a Director on 31 December 2010.

(8) Ms Anne Mills retired as a Director on 21 March 2010.

(9) Ms Nicola Shaw was appointed as a Director on 25 January 2010.

Report of the Remuneration Committee on Directors' Remuneration (*continued*)

Table 2.2 Interest of Directors in office at 31 December 2010 in the shares of the Group

	31 December 2010 Number of shares	1 January 2010* Number of shares
Colm Barrington	150,000	60,000
David Begg	500	500
Montie Brewer (1)	-	-
Leslie Buckley	110,200	65,000
Thomas Corcoran	8,800	8,800
Laurence Crowley	-	-
Ivor Fitzpatrick (2)	14,317	14,317
Danuta Gray	23,863	23,863
Francis Hackett	9,544	9,544
Colin Hunt	5,000	5,000
Michael Johns	4,772	4,772
Andrew Macfarlane (3) (4)	25,000	-
Thomas Moran	20,000	20,000
Christoph Mueller (5) (6) (7)	125,000	50,000
Nicola Shaw	23,945	-

\* Or date of appointment if later

There was no change in the Directors' interests in the period between 31 December 2010 and 25 March 2011, except that on 9 March 2011 Mr Andrew Macfarlane acquired an additional 10,000 shares and that on 18 March 2011, Mr Tom Moran acquired an additional 20,000 shares.

(1) Mr Montie Brewer was appointed as a Director on 25 January 2010.

(2) Mr Ivor Fitzpatrick retired as a Director on 31 December 2010.

(3) Mr Andrew Macfarlane was appointed as a Director on 3 October 2010.

(4) During the year ended 31 December 2010, Mr Andrew Macfarlane was granted conditional awards of 407,970 shares under the LTIP in respect of the vesting period 1 January 2010 to 31 December 2012, resulting in total holdings under the LTIP of 407,970 shares. Any vesting of these shares is subject to the achievement of the performance targets outlined above.

(5) On 8 September 2009, Mr Christoph Mueller was granted share options in respect of 1,500,000 shares. Subject to achieving the conditions specified in the Share Option Deed, the exercise price of the share options is as follows: The exercise price in respect of the options over 500,000 shares which may become exercisable on or after the 7th September 2012 is 110% of €0.521 per share (being the average closing share price on the five days prior to the date of grant); the exercise price in respect of the options over 500,000 shares which may become exercisable on or after the 7th September 2013 is 130% of €0.521 per share (being the average closing share price on the five days prior to the date of grant) and the exercise price in respect of the options over 500,000 shares which may become exercisable on or after the 7th September 2014 is 170% of €0.521 per share (being the average closing share price on the five days prior to the date of grant).

(6) On 8 September 2009, Mr Christoph Mueller was granted a conditional award in respect of 500,000 shares. The shares which are the subject of the share award will vest on 1st September 2011 subject to Mr. Mueller remaining in the employment of the group on that date.

(7) During the year ended 31 December 2010, Mr Christoph Mueller was granted conditional awards of 450,664 shares under the LTIP in respect of the vesting period 1 January 2010 to 31 December 2012, resulting in total holdings under the LTIP of 450,664 shares. Any vesting of these shares is subject to the achievement of the performance targets outlined above.

Table 2.3 Share Options

As at 31 December 2010 and subject to achieving the closing market share prices (as set out in the third column) below, for at least 25 of the 40 days prior to the relevant dates noted below, there are outstanding options over 1,500,000 ordinary shares granted to Mr. Christoph Mueller composed as follows:

	No. of ordinary shares	Closing market share price and relevant date for option to become exercisable	Exercise price	Normal dates exercisable
Mr. Christoph Mueller	500,000	€1.00 / 7th September 2012	€0.573 (1)	7th September 2012 until 7th September 2019
	500,000	€1.60 / 7th September 2013	€0.677(2)	7th September 2013 until 7th September 2019
	500,000	€2.20 / 7th September 2014	€0.886(3)	7th September 2014 until 7th September 2019

(1) 110% of €0.521 per share (2) 130% of €0.521 per share (3) 170% of €0.521 per share

**Colm Barrington**                      **Christoph Mueller**  
Chairman                                      Director

Approved by the Board of Directors on 25 March 2011

# Independent Auditors' Report

To the members of Aer Lingus Group plc

We have audited the financial statements of Aer Lingus Group plc for the year ended 31 December 2010 on pages 44 to 89 which comprise, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the parent financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the company statement of financial position is in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the statement of financial position date there existed a financial situation which may require the company to convene an extraordinary general meeting of the company; such a financial situation may exist if the net assets of the company, as stated in the company statement of financial position, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the group financial statements is consistent with the group financial statements. In addition, we review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2008 Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Review, the Operating and Financial Review, the Principal Risks and Uncertainties, the Safety & Security Statement, the Corporate Social Responsibility Statement, the Directors' Report and the Report of the Remuneration Committee on Directors' Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the parent company's affairs as at 31 December 2010 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company statement of financial position is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the group financial statements is consistent with the group financial statements.

The net assets of the company, as stated in the company statement of financial position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Dublin

28 March 2011

# Consolidated income statement

Year ended 31 December

	Note	2010	2009
		€'000	€'000
<b>Revenue</b>	6	<b>1,215,572</b>	1,205,739
<b>Operating expenses</b>			
Staff costs, pre net exceptional items	11	258,892	312,192
Depreciation and amortisation	8, 14, 15	87,444	82,674
Aircraft operating lease costs		51,579	55,845
Fuel and oil costs		266,205	331,657
Maintenance expenses		54,253	70,451
Airport charges		252,589	251,993
En-route charges		55,961	59,001
Distribution charges		47,521	45,458
Ground operations, catering and other operating costs		109,281	101,734
Other (gains)/losses - net	7	(25,799)	(24,248)
		<b>1,157,926</b>	1,286,757
<b>Operating profit/(loss) before net exceptional items</b>	8	<b>57,646</b>	(81,018)
Net exceptional items	9	(30,987)	(88,630)
<b>Operating profit/(loss) after net exceptional items</b>		<b>26,659</b>	(169,648)
Finance income	10	22,401	36,900
Finance costs	10	(15,613)	(22,098)
<b>Profit/(loss) before tax</b>		<b>33,447</b>	(154,846)
Income tax credit	12	15,760	24,765
<b>Profit/(loss) for the period</b>		<b>49,207</b>	(130,081)
<b>Profit/(loss) attributable to:</b>			
- equity holders of the parent		49,207	(130,081)
<b>Profit/(loss) per share for loss attributable to the equity holders of the parent</b> (expressed in € cent per share)			
- basic and diluted	13	9.3	(24.6)

The notes on pages 51 to 89 form an integral part of these financial statements.

**Andrew Macfarlane**      **Christoph Mueller**  
*Director*                      *Director*

Approved by the Board of Directors on 25 March 2011

# Consolidated statement of comprehensive income

Year ended 31 December

<i>Note</i>	<b>2010</b>	<b>2009</b>
	<b>€'000</b>	<b>€'000</b>
<b>Profit/(loss) for the period</b>	<b>49,207</b>	<b>(130,081)</b>
<b>Other comprehensive income/(loss)</b>		
<i>Available-for-sale reserve</i>		
- Amortisation of available-for-sale reserve	10	(795)
- Deferred tax on amortisation of available-for-sale reserve	25	82
<i>Cash flow hedges</i>		
- Fair value gains/(losses)		56,872
- Deferred tax on fair value gains/(losses)	25	(7,109)
- Transfer to fuel costs		8,391
- Deferred tax on transfer to fuel costs	25	(1,049)
- Transfer to other gains/losses - net		(9,668)
- Deferred tax on transfer to other gains/losses - net	25	1,209
<b>Other comprehensive income for the period</b>	<b>47,933</b>	<b>73,280</b>
<b>Total comprehensive profit/(loss) for the period</b>	<b>97,140</b>	<b>(56,801)</b>
<b>Total comprehensive profit/(loss) attributable to:</b>		
- equity holders of the parent	<b>97,140</b>	<b>(56,801)</b>

The notes on pages 51 to 89 form an integral part of these financial statements.

**Andrew Macfarlane**      **Christoph Mueller**  
*Director*                      *Director*

Approved by the Board of Directors on 25 March 2011

# Consolidated statement of financial position

	<i>Note</i>	2010	2009
		€'000	€'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	760,356	790,486
Intangible assets	15	4,388	5,613
Loans and receivables	17	39,790	71,944
Derivative financial instruments	18	8,462	6,849
Deferred tax asset	25	13,537	4,755
Deposits	21	128,359	90,260
		<b>954,892</b>	<b>969,907</b>
<b>Current assets</b>			
Inventories	19	1,280	816
Derivative financial instruments	18	40,261	17,699
Trade and other receivables	20	82,454	75,835
Current income tax receivables		34	18
Loans and receivables	17	-	5,362
Deposits	21	420,885	490,425
Cash and cash equivalents	21	305,999	170,475
		<b>850,913</b>	<b>760,630</b>
<b>Total assets</b>		<b>1,805,805</b>	<b>1,730,537</b>
<b>EQUITY</b>			
Called-up share capital	26	26,702	26,702
Share premium	27	510,605	510,605
Capital conversion reserve fund	27	5,048	5,048
Capital redemption reserve fund	27	343,796	343,796
Other reserves	27	55,347	6,643
Retained earnings		(139,090)	(188,297)
<b>Total equity</b>		<b>802,408</b>	<b>704,497</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Finance lease obligations	23	479,658	444,374
Derivative financial instruments	18	-	7,303
Provisions for other liabilities and charges	24	80,012	115,050
		<b>559,670</b>	<b>566,727</b>
<b>Current liabilities</b>			
Trade and other payables	22	299,117	340,710
Bank overdrafts	21	9,988	-
Finance lease obligations	23	55,573	48,247
Derivative financial instruments	18	7,511	11,873
Provisions for other liabilities and charges	24	71,538	58,483
		<b>443,727</b>	<b>459,313</b>
<b>Total liabilities</b>		<b>1,003,397</b>	<b>1,026,040</b>
<b>Total equity and liabilities</b>		<b>1,805,805</b>	<b>1,730,537</b>

The notes on pages 51 to 89 form an integral part of these financial statements.

**Andrew Macfarlane**      **Christoph Mueller**

*Director*

*Director*

Approved by the Board of Directors on 25 March 2011

# Company statement of financial position

As at 31 December

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets	33	<b>109,696</b>	109,696
<b>Current assets</b>			
Trade and other receivables	34	<b>833,806</b>	807,722
<b>Total assets</b>		<b>943,502</b>	917,418
<b>EQUITY</b>			
Called-up share capital	26	<b>26,702</b>	26,702
Share premium	27	<b>510,605</b>	510,605
Capital conversion reserve fund	27	<b>5,048</b>	5,048
Capital redemption reserve fund	27	<b>343,796</b>	343,796
Retained earnings		<b>57,351</b>	31,267
<b>Total equity</b>		<b>943,502</b>	917,418

In accordance with section 148(8) of the Companies Act, 1963 and section 7 (1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's result for the financial year determined in accordance with IFRS is a profit of €26.1m (2009: loss of €7.0m).

The notes on pages 51 to 89 form an integral part of these financial statements.

**Andrew Macfarlane**      **Christoph Mueller**  
*Director*                      *Director*

Approved by the Board of Directors on 25 March 2011

# Consolidated statement of changes in equity

	Notes	Called-up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Cash flow hedging reserve	Available- for-sale reserve	Treasury shares	Share based payment reserve	Retained earnings	Total equity
		€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Balance at 1 January 2009</b>	26, 27	26,698	506,847	5,048	343,516	(63,594)	3,242	(9,137)	1,081	(51,246)	762,455
Comprehensive income/ (loss) for the year ended 31 December 2009		-	-	-	-	75,299	(2,019)	-	-	(130,081)	(56,801)
Issue of new shares	26, 27	284	3,758	-	-	-	-	(4,042)	-	-	-
Cancellation of shares	26, 27	(280)	-	-	280	-	-	6,970	-	(6,970)	-
Purchase of treasury shares		-	-	-	-	-	-	(117)	-	-	(117)
Share based payment reserve		-	-	-	-	-	-	-	(1,189)	-	(1,189)
Deferred tax impact		-	-	-	-	-	-	-	149	-	149
<b>Balance at 31 December 2009</b>		26,702	510,605	5,048	343,796	11,705	1,223	(6,326)	41	(188,297)	704,497
<b>Balance at 1 January 2010</b>		26,702	510,605	5,048	343,796	11,705	1,223	(6,326)	41	(188,297)	704,497
Comprehensive income/ (loss) for the year ended 31 December 2010		-	-	-	-	48,646	(713)	-	-	49,207	97,140
Share based payment reserve		-	-	-	-	-	-	-	882	-	882
Deferred tax impact		-	-	-	-	-	-	-	(111)	-	(111)
<b>Balance at 31 December 2010</b>		26,702	510,605	5,048	343,796	60,351	510	(6,326)	812	(139,090)	802,408

The notes on pages 51 to 89 form an integral part of these financial statements.

# Company statement of changes in equity

	Note	Called up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Retained earnings	Total equity
		€'000	€'000	€'000	€'000	€'000	€'000
<b>Balance at 1 January 2009</b>		<b>26,698</b>	<b>506,847</b>	<b>5,048</b>	<b>343,516</b>	<b>38,237</b>	<b>920,346</b>
Comprehensive (loss) for the year Ended 31 December 2009		-	-	-	-	(6,970)	(6,970)
Issue of new shares	26, 27	284	3,758	-	-	-	4,042
Cancellation of shares	26, 27	(280)	-	-	280	-	-
<b>Balance at 31 December 2009</b>		<b>26,702</b>	<b>510,605</b>	<b>5,048</b>	<b>343,796</b>	<b>31,267</b>	<b>917,418</b>
Comprehensive income for the year Ended 31 December 2010		-	-	-	-	26,084	26,084
<b>Balance at 31 December 2010</b>		<b>26,702</b>	<b>510,605</b>	<b>5,048</b>	<b>343,796</b>	<b>57,351</b>	<b>943,502</b>

The notes on pages 51 to 89 form an integral part of these financial statements.

# Consolidated statement of cash flows

Year ended 31 December

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		<b>€'000</b>	<b>€'000</b>
<b>Cash flows from operating activities</b>	<i>32</i>	<b>46,515</b>	(168,113)
Income tax paid		<b>(16)</b>	(18)
Net cash generated/(used) in operations		<b>46,499</b>	(168,131)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (net of lease finance raised)		<b>(803)</b>	(108,779)
Proceeds from sales of property, plant and equipment		<b>17,664</b>	-
Purchases of intangible assets		-	(3,889)
Decrease in deposits		<b>77,328</b>	201,653
Proceeds from sales of loans and receivables		<b>46,574</b>	-
Interest received		<b>10,225</b>	19,047
Net cash generated from investing activities		<b>150,988</b>	108,032
<b>Cash flows from financing activities</b>			
Repayments of borrowings		<b>(63,436)</b>	(113,513)
Interest paid		<b>(7,165)</b>	(8,905)
Net cash used in from financing activities		<b>(70,601)</b>	(122,418)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>126,886</b>	(182,517)
Cash and cash equivalents at 1 January	<i>21</i>	<b>170,475</b>	351,692
Exchange(losses)/gains on cash and cash equivalents		<b>(1,350)</b>	1,300
<b>Cash and cash equivalents at 31 December</b>	<i>21</i>	<b>296,011</b>	170,475

The notes on pages 51 to 89 form an integral part of these financial statements.

A Company cash flow statement has not been prepared, as it does not hold any cash. There was no cash held in the Company during the years ended 31 December 2010 and 2009 or at either year-end.

# Notes to the consolidated financial statements

## 1 General information

Aer Lingus Group plc (“the Company”) and its subsidiaries (together “the Group”) operates as an Irish airline primarily providing passenger and cargo transportation services from Ireland to the UK and Europe (“short haul”) and also to the US (“long haul”). The Company is a public limited liability company incorporated and domiciled in Ireland. The address of its registered office is Dublin Airport, Co. Dublin, Ireland. The Company has its primary listing on the Irish Stock Exchange and a secondary listing on the London Stock Exchange.

These financial statements were authorised for issue by the Board of directors on 25 March 2011. The financial statements are for the Group for the financial years ended 31 December 2010 and 31 December 2009. The principal companies within the Group during the years ended 31 December 2010 and 31 December 2009 are disclosed in Note 16.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of Aer Lingus Group plc, which are presented in euro and rounded to the nearest thousand (€'000) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Acts 1963 to 2009 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimated are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimated. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### 2.1.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 1 (Revised) *First Time Adoption of IFRS*
- IFRS 3 (Revised) *Business Combinations*
- IAS 27 (Amended) *Consolidated and Separate Financial Statements*
- IAS 28 (Amended) *Investments in Associates*
- IAS 31 (Amended) *Interests in Joint Ventures*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- IFRS 1 (Amendment) *Additional exemptions for First-time Adopters*
- IFRS 2 (Amendment) *Group Cash-settled Share-based Payment Transactions*

## Notes to the consolidated financial statements (*continued*)

### 2 Summary of significant accounting policies (*continued*)

- Improvements to IFRSs (*April 2009*)
  - IFRS 2 *Share-based Payments*
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
  - IFRS 8 *Operating Segments*
  - IAS 1 *Presentation of Financial Statements*
  - IAS 7 *Statement of Cash Flows*
  - IAS 17 *Leases*
  - IAS 18 *Revenue*
  - IAS 36 *Impairment of Assets*
  - IAS 38 *Intangible Assets*
  - IAS 39 *Financial Instruments: Recognition and Measurement*
  - IFRIC 9 *Reassessment of Embedded Derivatives*
  - IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

The adoption of these standards and interpretations has not led to any changes in accounting policies.

IAS 1 Presentation of Financial Statements (effective 1 January 2011) and IAS 24 (Revised) Related Party Disclosures (effective 1 January 2011) have been adopted early.

The following new standards, amendments to existing standards and interpretations have been issued prior to the date of issuance of the Group's financial statements but have not been early adopted by the Group:

- IAS 32 (Amendment) *Classification of Rights Issues* (effective 1 February 2010)
- IFRS 1 (Amendment) *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* (effective 1 July 2010)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective 1 July 2010)
- IFRIC 14 *Prepayments of Minimum Funding Requirement* (effective 1 January 2011)
- IFRS 9 *Financial Instruments* (effective 1 January 2013)
- Improvements to IFRSs (May 2010)
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards* (effective 1 January 2011)
  - IFRS 3 *Business Combinations* (effective 1 July 2010)
  - IFRS 7 *Financial Instruments: Disclosures* (effective 1 January 2011)
  - IAS 27 *Consolidated and Separate Financial Statements* (effective 1 January 2011)
  - IAS 34 *Interim Financial Reporting* (effective 1 January 2011)
  - IFRIC 13 *Customer Loyalty Programmes* (effective 1 January 2011)

Other than IFRS 9, for which the Directors have not yet had an opportunity to consider the potential impact of adoption, the above standards and amendments are not expected to have a significant impact on the Group's financial statements.

## 2 Summary of significant accounting policies (*continued*)

### 2.2 Consolidation

#### (a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisitions of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given. Equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions balance and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of all subsidiaries are drawn up to the year ended 31 December. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Christoph Mueller.

### 2.4 Foreign currency translation

#### (a) *Functional and presentation currency*

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the Company and all of its trading subsidiaries.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

### 2.5 Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the consolidated financial statements (*continued*)**2 Summary of significant accounting policies (*continued*)**

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows

	Useful lives	Residual values
<b>Flight equipment</b>		
Aircraft fleet and major spares		
- short haul aircraft	18 years	10% residual value
- long haul aircraft	20 years	10% residual value
Rotable spares	5 – 11 year	Nil
Modifications to leased aircraft	Period of lease	Nil
<b>Property</b>		
Freehold	Principally 50 years	Nil
Leasehold	Period of lease	Nil
<b>Equipment</b>		
Ground equipment	3 – 20 years	Nil
Other equipment	2 – 10 years	Nil

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

The costs of major airframe and engine maintenance checks on owned and finance leased aircraft are capitalised and depreciated over the shorter of the period to the next check or the remaining life of the aircraft. On acquisition of new owned or finance leased aircraft, the expected cost of initial major airframe and engine maintenance checks is separately identified and depreciated over the shorter of the period to the next check or the remaining life of the aircraft.

**2.6 Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years) on a straight line basis.

Other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

**2.7 Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 Summary of significant accounting policies (*continued*)

### 2.8 Financial assets

#### 2.8.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### *(a) Loans and receivables*

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

##### *(b) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

#### 2.8.2 Recognition and measurements

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transactions costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

## Notes to the consolidated financial statements (*continued*)

### 2 Summary of significant accounting policies (*continued*)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

#### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 2.10 Impairment of financial assets

##### (a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) Adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assess whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## 2 Summary of significant accounting policies (*continued*)

### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Impairment testing of trade receivables is described in note 2.13.

### 2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- Hedges of a particular risk associated with a recognised assets or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 18. Movements on the hedging reserve in shareholders' equity are shown in note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on assets and borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate assets and borrowings is recognised in the income statement within 'finance costs' or 'finance expenses'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/losses – net'. The gain or loss relating to the ineffective portion of the interest rate swaps is recognised in the income statement within 'other gains/losses – net'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

#### (b) Cash flow hedge

Cash flow hedges are principally used to hedge the commodity price risk associated with the Group's forecasted fuel purchases as well as certain foreign exchange and interest rate exposures. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fuel and oil' in the case of fuel purchases and 'other gains/losses – net' in the case of the foreign exchange derivatives.

## Notes to the consolidated financial statements (*continued*)

### 2 Summary of significant accounting policies (*continued*)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). They are included under the relevant caption in the consolidated financial statements, i.e. fuel hedges in 'fuel and oil costs' caption and foreign exchange hedges in 'other gains/losses – net' caption.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast cash flow arises. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable disposal costs.

#### 2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, where appropriate, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will reject charges and default or delinquencies in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised within the income statement within 'ground operating, catering and other operating costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the same account in the income statement.

#### 2.14 Cash and cash equivalents and deposits

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Deposits comprise short and medium term deposits. Given that the maturities of these investments fall outside the three month timeframe for classification as cash and cash equivalents under IAS 7 Statement of Cash Flows, the related balances have been classified as 'deposits'.

#### 2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

#### 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 Summary of significant accounting policies (*continued*)

### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The tax effects of income tax losses available for carry forward are recognised as an assets when it is probable that future taxable profits will be available against which these losses can be utilised.

### 2.19 Employee benefits

#### *Pension obligations*

The Group companies operate various pension schemes. The schemes are generally funded through payments to trustee-administered funds. The Group contributes to defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution schemes, the Group pays contributions into the pension schemes in accordance with the trust deed. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## Notes to the consolidated financial statements (*continued*)

### 2 Summary of significant accounting policies (*continued*)

#### 2.20 Share-based payment

The Group operate an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (share awards) of the Group. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share awards granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Excluding the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of share awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of share awards that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received, net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

#### 2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions are made on a monthly basis for aircraft maintenance costs, which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease impose obligations on the lessee to have these overhauls carried out. Provisions for costs to meet the contractual return conditions are also included. The actual cash outflow of the overhauls is charged against the provision when incurred. Any residual balance is transferred to the income statement.

A provision for business repositioning costs is recognised when a constructive obligation exists. The amount of the provision is based on the terms of business repositioning measures, including employee severance and early retirement measures which have been communicated to employees. They represent the Directors' best estimate of the cost of these measures, having regard to the current status of negotiations.

#### 2.22 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Revenue comprises the fair value of the consideration received or receivable for the sale of the Group's services in the ordinary course of the Group's activities, and can be divided into scheduled passenger, cargo and ancillary revenue. Scheduled passenger revenue is shown inclusive of passenger charges and other fees to the extent that these are recovered directly from customers at the point of sale. Revenue is recognised as follows:

## 2 Summary of significant accounting policies (*continued*)

### (a) Revenues

Scheduled passenger and cargo revenues are recognised when transportation is provided. The value of sales made for which transportation has not been provided at the balance sheet date is included in 'trade and other payables' under the caption of 'ticket sales in advance'. Expired tickets are recognised as revenue using estimates regarding the timing of recognition based on historical trends. Fees charged for any changes to flight tickets are recognised as revenue immediately. Ancillary revenues are recognised in the income statement in the period in which the associated services are provided.

### (b) Interest income

Interest income is recognised using the effective interest method.

### (c) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of aircraft where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased aircraft and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in 'finance lease obligations'. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Certain lease contracts contain interest rate swaps that are closely related to the underlying financing and as such, are not split out and accounted for as an embedded derivative. The aircraft acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

## 2.24 Exceptional items

Exceptional items are material non-recurring items that derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, are separately disclosed by virtue of their size or incidence. Such items may include business repositioning costs, takeover defence costs, profit or loss on disposal of significant items of property, plant and equipment, litigation costs and settlements, profit or loss on disposal of investments and impairment of assets, or once off costs where separate identification is important to gain an understanding of the financial statements.

Judgement is used by the Group in assessing the particular items which should be disclosed in the income statement and related notes as exceptional items.

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including exchange rate and interest rate risk), credit risk, liquidity risk and commodity price risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

## Notes to the consolidated financial statements (*continued*)

### 3 Financial risk management (*continued*)

Financial risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### (a) Market risk

##### (i) Foreign exchange risk

The main currency exposures result from a deficit in US dollars and a surplus in sterling. A large proportion of the group treasury function's work in relation to foreign exchange rate risk relates to the management of the Group's cashflow exposures. Significant currency exposures are managed for the current and next financial years on a selective hedging basis. The dollar deficit arises because the dollar costs for fuel and aircraft rentals, etc., exceed dollar sales in the US. The sterling surplus arises because UK sales exceed sterling costs. Profits are reduced by a stronger dollar and/or a weaker sterling.

Additionally, significant currency exposure results from the US dollar capital commitments relating to the purchase of aircraft. Acquisition costs are increased by a stronger dollar.

The group treasury function manages the following currency risk generating activities: cashflow exposures, non-cashflow income statement exposures and balance sheet exposures. The products used by the group treasury function in managing currency risk are predominantly forward foreign exchange contracts.

Currency risks are hedged on a selective hedging basis. The Group's risk management policy targets a minimum of 50% cover for these exposures for the current financial year and a minimum of 25% cover for the following financial year.

Based on the surplus in sterling for the year ended 31 December 2010, a 5% weakening of the EUR/GBP exchange rate over the year end rate would result in a reduction in profit of €5.2m for the year (2009: €4.0m). Based on the deficit in US dollars for the year ended 31 December 2010, a 5% strengthening of the EUR/USD exchange rate over the year-end rate would result in a reduction in profit of €11.1m for the year (2009: €15.4m).

##### (ii) Interest rate risk

The Group is exposed to interest rate risk associated with its long term funding requirements and its programme of surplus funds investment. Higher interest rates increase the costs of gross debt and lower interest rates lower the returns from cash investments.

Overall the Group is in a net cash position. Interest rate exposures on debt is managed by placing matching investments, which serve as natural hedges in relation to both interest rate and currency exposures on the debt. In addition to these investments, the Group holds surplus cash, predominantly in euro, and therefore the major interest rate exposure the Group has is to movements in the euro interest rate. This exposure is actively reviewed and managed. A 1% fall in interest rates based on net surplus cash throughout 2010 would reduce profits by €3.9m (2009: €4.9m).

##### (iii) Commodity price risk

The Group's fuel requirements expose the Group to the market volatility of jet fuel prices. The Group is subject to jet fuel price risk resulting from its operating activities. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on profitability. The primary policy objective for the management of fuel price exposure in the Group is to contribute to the achievement of the Group's profitability in a risk managed and cost effective manner, reduce the volatility and increase the predictability of future fuel costs.

The group treasury function manages fuel price risk within a tightly controlled framework. From July 2009, the Group introduced a systematic fuel hedging policy covering the following 2 year period. This systematic hedging policy targets specific cover levels for each following period 24 months on a rolling basis ranging from 90% cover going into next months to 5% cover 24 months out. This generates average cover levels of approximately 60% for the next 18 month period (rolling year 1) and 15% for the following 12 months (rolling year 2).

### 3 Financial risk management (*continued*)

Under the policy the Group can derogate from this systematic hedging requirement, in event of unusual market conditions.

The products used by the group treasury function in managing commodity price risk are predominantly jet fuel swaps.

A US \$10 increase in the price per tonne of jet fuel price in 2010 would have increased fuel costs by approximately \$4.5m, based on an estimated burn/MT of 450,000 tonnes, absent hedging (2009: \$5.0m).

#### (b) Credit risk

Credit risk is managed on group basis. Credit risk arises from loans and receivables, derivative financial instruments, deposits and cash and cash equivalents with banks and financial institutions and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Group policy requires financial counterparties to hold minimum credit ratings from independent rating agencies. The appropriateness and utilisation of Board approved credit limited are regularly monitored and reviewed in light of the commercial requirements of the Group.

At 31 December 2010 the Group had a total credit exposure of €0.9bn relating to bonds, deposits, cash and derivatives which was spread over 30 counterparties. Of this €0.7bn was due to mature within 12 months. The Group does not have any material credit risk arising from the ageing of trade and other receivables.

67% of the total credit exposure of €0.9bn, was held with financial institutions, holding long-term credit ratings equivalent to AAA to AA3 (Moody's). 24% of the total credit exposure was held with financial institutions, holding long term-ratings equivalent to A1 to A2. The remaining 9% was held with financial institutions with long-term credit ratings below A2. At 22 March 2011, the respective %s were 68%, 28% and 4%.

#### (c) Liquidity risk

The principal policy objective in relation to liquidity is to ensure that the Group has access at minimum cost, to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. In implementing this policy, the Group is required to maintain, at all times, access to Board approved minimum requirements. In addition, this liquidity requirement, once drawn, must continue to be accessible for an agreed further period. Cash balances in excess of these levels are normally maintained in order to enable the Group to take advantage of commercial opportunities and withstand business shocks.

The Group has long-term debt almost exclusively associated with aircraft acquisitions. All borrowing is undertaken by the group treasury function. Group policy is to maintain, at all times, cash and/or committed facilities for a high proportion of the net forecasted borrowing requirements for the following 12 months. Where borrowings are made to fund the acquisition of aircraft, policy requires at least 80% of such borrowings must be from facilities that are committed for a period of not less than five years.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total
	€'000	€'000	€'000	€'000	€'000
<b>At 31 December 2010</b>					
Finance lease obligations	78,381	53,808	271,798	251,314	655,301
Trade and other payables	299,117	-	-	-	299,117
<b>At 31 December 2009</b>					
Finance lease obligations	70,952	67,338	197,852	278,987	615,129
Trade and other payables	340,710	-	-	-	340,710

Notes to the consolidated financial statements (*continued*)**3 Financial risk management (*continued*)**

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total
	€'000	€'000	€'000	€'000	€'000
<b>At 31 December 2010</b>					
<i>Cross currency interest rate swap</i>					
Outflow	20,170	-	-	-	20,170
Inflow	14,000	-	-	-	14,000
<i>Forward foreign currency contracts</i>					
Outflow	706,968	91,933	4,394	-	803,295
Inflow	675,318	85,900	4,343	-	765,561
<i>Forward fuel price contracts</i>					
Outflow	158,906	40,727	-	-	199,633
Inflow	172,393	43,591	-	-	215,984
<b>At 31 December 2009</b>					
<i>Cross currency interest rate swap</i>					
Outflow	-	20,170	-	-	20,170
Inflow	-	12,833	-	-	12,833
<i>Forward foreign currency contracts</i>					
Outflow	555,155	362,567	69,444	-	987,166
Inflow	543,421	360,722	69,904	-	974,047
<i>Forward fuel price contracts</i>					
Outflow	147,620	46,449	-	-	194,069
Inflow	212,573	48,060	-	-	260,633

**3.2 Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including finance lease obligations as shown in the consolidated statement of financial position) less loans and receivables, deposits and cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. Overall, the Group is currently in a net cash position.

**3.3 Fair value estimation**

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets of liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset of liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

### 3 Financial risk management (*continued*)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
<b>Assets</b>				
Derivative financial instruments	-	48,723	-	48,723
<b>Liabilities</b>				
Derivative financial instruments	-	7,511	-	7,511

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value
- The fair value of fuel price swaps is determined using forward fuel prices at the balance sheet date, with the resulting value discounted back to present value.

### 4 Critical accounting estimates and judgements

The Group believes that of its significant accounting policies and estimates, the following may involve a higher degree of judgement and complexity:

#### (a) Provisions

The Group makes provisions for legal and constructive obligations, which it knows to be outstanding at the period-end date. These provisions are generally made based on historical or other pertinent information, adjusted for recent trends where relevant. However, they are estimates of the financial costs of events that may not occur for some years. As a result of this and the level of uncertainty attaching to the final outcomes, the actual outturn may differ significantly from that estimated.

#### (b) Post retirement benefits

As the provisions of trust deeds governing the Irish Pension Schemes are such that no changes to the contribution rates are possible without the prior consent of the Group, the Group has concluded that it has no obligation, legal or constructive, to increase its contributions beyond those levels. As such, it has accounted for the Irish Pension Schemes as defined contribution schemes under the provisions of IAS 19 Employee Benefits, and, as a result, does not recognise any surplus or deficit in the schemes on the statement of financial position.

If any legal or constructive obligation to vary the Group's contributions based on the funding status of the Irish Pension Schemes arises, IAS 19 requires the Group to include any pension fund surplus or deficit on its statement of financial position and reflect any period on period movements in its income statement or the statement of comprehensive income.

#### (c) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the consolidated financial statements (*continued*)**5 Segment information**

IFRS 8 *Operating Segments* requires us to disclose certain information about our operating segments. An operating segment is defined as a component of an entity that engages in business activities from which it earns revenues and incurs expenses, with discrete financial information, which is evaluated regularly by the chief operating decision maker and used in resource allocation and to assess performance.

The Group is managed as a single business unit that provides air transportation for passengers and cargo, which allows the Group to benefit from an integrated revenue pricing and route network. Our flight equipment forms one fleet, which is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker evaluates flight profitability data, which considers aircraft type and route economics. Based on the way the Group treats the network and the manner in which resource allocation decisions are made the Group only has one operating segment for financial reporting purposes.

The chief operating decision maker assesses the performance of the operating segment based on a measure of adjusted operating profit before net exceptional items, interest and tax. This measure excludes the effects of non-recurring expenditure and revenue from the operating segment, such as provision remeasurements, when the remeasurements are the result of an isolated, non-recurring event. These are aggregated in the 'miscellaneous group level adjustments' caption below. Interest income and expenditure are not included in the result of the operating segment that is reviewed by the chief operating decision maker.

Total segment assets exclude deferred tax assets, loans and receivables, deposits and cash and cash equivalents, all of which are managed on a central basis. These are part of the reconciliation to total assets.

Segment revenue of €1,215.6m (2009: €1,205.7m) is wholly derived from external customers. Depreciation and amortisation of €91.4m (2009: €82.7m) is included in the measure of segment profit and loss.

	2010	2009
	€'000	€'000
<b>Adjusted operating profit/(loss) before net exceptional items, interest and tax for the reportable Segment</b>	<b>46,237</b>	(70,834)
Miscellaneous group level adjustments	11,409	(10,184)
Net exceptional items	<b>(30,987)</b>	(88,630)
<b>Operating profit/(loss) after net exceptional items</b>	<b>26,659</b>	(169,648)
Finance income	22,401	36,900
Finance costs	<b>(15,613)</b>	(22,098)
Profit/(loss) before tax	<b>33,447</b>	(154,846)

The reportable segment's assets are reconciled to total assets as follows:

	2010	2009
	€'000	€'000
Total segment assets	<b>897,235</b>	897,316
Deferred tax asset	13,537	4,755
Loans and receivables	39,790	77,306
Deposits	549,244	580,685
Cash and cash equivalents	<b>305,999</b>	170,475
Total assets	<b>1,805,805</b>	1,730,537

During the period additions totalling €74.6m (2009: €162.7m) were made to the reportable segments non-current assets.

Revenues from external customers, attributable to Ireland, the Group's country of domicile, amounted to €705.0m (2009: €723.5m) and revenues from external customers, attributed to foreign countries in total from which the Group derives revenue, amounted to €510.6m (2009: €482.2m). Substantially all of the Group's non-current assets are located in Ireland.

**6 Revenue**

	2010	2009
	€'000	€'000
Passenger revenue	1,001,119	992,683
Ancillary revenue	165,127	173,907
Cargo revenue	41,271	34,338
Other revenue	8,055	4,811
	<b>1,215,572</b>	<b>1,205,739</b>

**7 Other (gains)/losses - net**

	2010	2009
	€'000	€'000
Fair value (gains)/losses on cross-currency interest rate swap	(986)	1,018
Realised gains on forward foreign currency contracts	(25,050)	(31,365)
Net foreign exchange losses on operating activities	237	6,099
	<b>(25,799)</b>	<b>(24,248)</b>

**8 Operating profit/(loss) before net exceptional items**

The operating profit/(loss) before net exceptional items is stated after charging/(crediting):

	2010	2009
	€'000	€'000
Depreciation on property, plant and equipment (Note 14)		
- owned	39,274	40,235
- held under finance leases	48,287	37,054
Amortisation of intangible assets (Note 15)	3,870	5,385
Operating lease rentals payables		
- plant and machinery	69	85
- aircraft	51,579	55,845
- property	9,506	9,002
Auditors' remuneration		
- audit fee	190	190
- other assurance services	45	-
- tax advisory services	178	320
- other non audit services	1	180
Total auditors' remuneration	<b>414</b>	<b>690</b>

Director's emoluments \* 1,861 2,355

\* Further information on Director's emoluments is included in the Report of the Remuneration Committee on Directors' Remuneration on pages 37 to 41

Notes to the consolidated financial statements (*continued*)**9 Net exceptional items**

	2010	2009
	€'000	€'000
Northern European airspace closure costs (a)	4,283	-
Profit on disposal of property, plant and equipment (b)	(3,108)	-
Payment to discharge ESOT profit share obligation (c)	25,691	-
Gain on exit of line maintenance contract (d)	(11,780)	-
Restructuring (e)	(8,628)	88,630
Statutory redundancy government refund (f)	(4,971)	-
Leave and return settlement (g)	29,500	-
	<b>30,987</b>	<b>88,630</b>

(a) Costs of compensating passengers incurred as a result of the closure of northern European airspace following the eruption of a volcano in Eyjafjallajökull, Iceland.

(b) Profit on disposal of aircraft.

(c) Once-off payment to the Aer Lingus Employee Share Ownership Trust ("ESOT") to fully extinguish the Group's obligations to pay any further share of profits to the ESOT.

(d) Gain realised following the exit of line maintenance contract with SR Technics.

(e) Re-measurement of provisions for restructuring costs associated with early retirement, voluntary severance and migration schemes offered prior to 2010. The 2009 charge consists of a provision for net redundancy payments of €51.9m and a provision for a deferred payment to staff of €25.0m for the 2009 Cost Reduction Programme and a remeasurement of the 2008 restructuring charge of €11.7m.

(f) Statutory redundancy refunds relating to redundancies effected during 2009.

(g) In 2008, Aer Lingus proposed to outsource the majority of its Dublin based ground operations as these operations were uneconomic by reference to prevailing norms in the airline industry. Discussions with the SIPTU union, facilitated by the National Implementation Body and later the Labour Relations Commission, led to a collective agreement in November 2008 on a significant restructuring of ground operations. This restructuring was agreed by Aer Lingus management at the time on the basis that the severance payments made to staff under the restructuring programme would qualify as a redundancy under the relevant legislation, with related rebates for Aer Lingus and termination of employment tax relief for affected staff.

In 2009, 913 staff were made redundant and 715 of those employees successfully applied for new roles within the Group, with changed duties and lower salaries.

By late 2010, it had become clear that both Revenue and the Department of Enterprise Trade & Innovation were seriously questioning whether the members of staff who left and subsequently applied for new roles and returned to Aer Lingus should be considered to be redundant under the relevant legislation. A review was commenced of the terms on which these redundancies were agreed by all of the parties involved at the time.

Having reviewed the matter and taken appropriate advice, Aer Lingus concluded that it was in shareholders' and the Group's best interests to seek a settlement of the matter. In negotiations on 23 February 2011, Revenue confirmed their intention to seek to recover PAYE and PRSI which they considered should have been deducted from termination payments to employees in 2009. Aer Lingus concluded following that meeting, that it should make an exceptional provision of €32.5 million in its financial statements in respect of the likely cost of dealing with this matter. In making this provision, Aer Lingus was conscious of the risk that in disputing an assessment issued by Revenue, the Appeals Commissioner could impose a higher liability if the case were found against the Group. A settlement of this matter has now been agreed and the exceptional provision amount has been revised to €29.5m. The revised provision is incorporated in these financial statements.

**10 Finance income and expense**

	2010	2009
	€'000	€'000
<b>Finance income</b>		
Interest on cash and term deposits	13,182	30,690
Interest income on loans and receivables	3,752	4,150
Amortisation of available-for-sale reserve	795	2,060
Other financial income	4,672	-
	<b>22,401</b>	<b>36,900</b>
<b>Finance expense</b>		
Finance lease interest	15,613	22,098
	<b>15,613</b>	<b>22,098</b>

**11 Employee benefits**

The average number of persons (Full Time Equivalents) employed by the Group in the financial year was 3,516 (2009: 3,844) split as follows:

	2010	2009
Operations and administration	3,466	3,736
Sales and marketing	50	108
	<b>3,516</b>	<b>3,844</b>

Their associated payroll costs were as follows:

	2010	2009
	€'000	€'000
Wages and salaries	219,748	247,142
Social welfare costs	19,942	22,162
Pension costs (Note 29)	18,320	24,882
Other staff costs	-	17,960
Share based payments (Note 27)	882	46
	<b>258,892</b>	<b>312,192</b>

Notes to the consolidated financial statements (*continued*)**12 Income tax***(i) Income tax credit recognised in the income statement*

	2010	2009
	€'000	€'000
<b>Current taxation</b>		
Irish corporation tax	-	-
Remeasurment of income tax provisions	-	12,796
	-	12,796
<b>Deferred tax</b>		
Origination and reversal of temporary differences	2,964	24,765
Release of provision against deferred tax asset	12,796	(12,796)
	15,760	11,969
<b>Total income tax credit</b>	<b>15,760</b>	<b>24,765</b>

*(ii) Reconciliation of effective tax rate*

	2010	2009
	€'000	€'000
(Profit)/Loss on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2009: 12.5%)	(4,181)	19,356
<b>Effects of:</b>		
Expenses not deductible/(taxable) for tax purposes	2	(28)
Differences in tax rates	(113)	(688)
Release of provision against deferred tax asset	12,796	-
Other adjusting items	7,256	6,125
<b>Income tax credit for the year</b>	<b>15,760</b>	<b>24,765</b>

**13 Basic and diluted loss per share**

Basic loss per share is calculated by dividing the loss attributable to the equity holders of the parent by the weighted average number of shares in issue during the year, excluding shares issued under the Long-Term Incentive Plan, which are classified as treasury shares.

There were no dilutive potential ordinary shares in existence in 2010 and 2009. Therefore, there was no difference, in both periods, between basic and diluted earnings per share.

	2010	2009
Profit/(loss) attributable to equity holders of the parent (€'000s)	49,207	(130,081)
Weighted average number of ordinary shares in issue (000s)	529,593	529,746
<b>Basic and diluted earnings/(loss) per share (€ cent per share)</b>	<b>9.3</b>	<b>(24.6)</b>

## 14 Property, plant and equipment

	Flight equipment	Property	Ground equipment	Other equipment	Total
	€'000	€'000	€'000	€'000	€'000
<b>Cost</b>					
1 January 2009	1,002,957	38,540	43,551	22,923	1,107,971
Additions	151,677	425	5,939	773	158,814
Disposals	(10,122)	-	(1,099)	(234)	(11,455)
31 December 2009	1,144,512	38,965	48,391	23,462	1,255,330
<b>Accumulated depreciation</b>					
1 January 2009	316,712	31,747	31,081	19,470	399,010
Depreciation charge for the period	71,237	1,132	3,654	1,266	77,289
Disposals	(10,122)	-	(1,099)	(234)	(11,455)
31 December 2009	377,827	32,879	33,636	20,502	464,844
<b>Cost</b>					
1 January 2010	1,144,512	38,965	48,391	23,462	1,255,330
Additions	65,621	2,815	2,533	1,033	72,002
Disposals	(53,140)	-	(1,328)	(220)	(54,688)
31 December 2010	1,156,993	41,780	49,596	24,275	1,272,644
<b>Accumulated depreciation</b>					
1 January 2010	377,827	32,879	33,636	20,502	464,844
Depreciation charge for the period	78,364	4,032	4,320	845	87,561
Disposals	(38,604)	-	(1,293)	(220)	(40,117)
31 December 2010	417,587	36,911	36,663	21,127	512,288
<b>Net book value</b>					
31 December 2010	739,406	4,869	12,933	3,148	760,356
31 December 2009	766,685	6,086	14,755	2,960	790,486
<b>Leased assets included above (net book value)</b>					
31 December 2010	540,926	-	-	-	540,926
31 December 2009	514,988	-	-	-	514,988

Management assess, at each reporting date, whether there is any indication that an asset may be impaired. If any such indication exists, impairment is calculated by reference to the expected recoverable amount of the asset in question. No impairment losses were recognised in 2010 or 2009.

Finance lease obligations are secured on flight equipment with a net book value of €540.9m (2009: €515.0m) (Note 23).

Notes to the consolidated financial statements (*continued*)**14 Property, plant and equipment (*continued*)****Reconciliation of depreciation charge**

	2010	2009
	€'000	€'000
<i>Included in accumulated depreciation in consolidated statement of financial position</i>		
Depreciation of property, plant and equipment	87,561	77,289
Amortisation of intangible assets (Note 15)	3,870	5,385
	<b>91,431</b>	<b>82,674</b>
<i>Depreciation and amortisation charged to the income statement</i>		
Depreciation and amortisation	87,444	82,674
Other revenue	3,987*	-
	<b>91,431</b>	<b>82,674</b>

\* Depreciation reflected in other revenue relates to depreciation incurred on the aircraft used in the extended codeshare agreement with United Airlines.

**15 Intangible assets****Computer software**

	2010	2009
	€'000	€'000
<b>Cost</b>		
At 1 January	48,443	44,554
Additions	2,645	3,889
At 31 December	<b>51,088</b>	<b>48,443</b>
<b>Aggregate amortisation</b>		
At 1 January	42,830	37,445
Charge for the year	3,870	5,385
At 31 December	<b>46,700</b>	<b>42,830</b>
<b>Net book value</b>		
At 1 January	5,613	7,109
At 31 December	<b>4,388</b>	<b>5,613</b>

The amortisation expense of €3.9m, (2009: €5.4m) has been charged in 'depreciation and amortisation' in the income statement.

## 16 Group undertakings

Aer Lingus Group plc is a company incorporated under the Irish Companies Acts, 1963 to 2009. Its head office is at Dublin Airport, Co. Dublin, Ireland. It is the ultimate parent company in the Aer Lingus group.

The principal group companies are Aer Lingus Limited, Aer Lingus Beachey Limited, Aer Lingus (Ireland) Limited and Dirnan Insurance Company Limited all of which are wholly owned. Aer Lingus Limited is incorporated in Ireland and is the principal operating company. Aer Lingus (Ireland) Limited was established in 2009 and employees former employees of SR Technics who provide maintenance service on the Aer Lingus fleet. Aer Lingus Beachey Limited is incorporated in the Isle of Man and its principal activity is aircraft financing. Dirnan Insurance Company is incorporated in Bermuda and its principal activity is handling and resolving claims on expired insurance policies as it is currently in “run-off”. Full details of all group companies will be filed with the Company’s annual return, which is available from the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1. In addition, the Group trades through a number of overseas branches. ALG Trustees Limited was established in 2007 to manage the Group’s Long Term Incentive Plan (LTIP). The Group consolidates ALG Trustees Limited in the group accounts.

Aer Lingus Group plc has guaranteed the liabilities of its subsidiary undertakings for the purposes of Section 17 of the Companies (Amendment) Act, 1986.

## 17 Other financial assets

### Loans and receivables

	2010	2009
	€'000	€'000
1 January	77,306	115,109
Matured during the period	(51,092)	(40,204)
Exchange differences	9,824	(1,749)
Interest income	3,752	4,150
At 31 December	39,790	77,306
Less: non-current portion	(39,790)	(71,944)
<b>Current portion</b>	<b>-</b>	<b>5,362</b>

There were no impairment provisions for loans and receivables in 2010 and 2009.

Loans and receivables comprise the following:

	2010	2009
	€'000	€'000
Unlisted securities:		
- Zero-coupon debt securities traded on inactive markets with maturity dates from August 2014 to February 2015	39,790	77,306

These assets are all denominated in US dollars. These unlisted securities are mainly held in order to meet certain finance lease obligations denominated in the same currency and with the same maturity. These securities, together with the interest receivable thereon, will be sufficient to meet the associated lease obligations.

The maximum exposure to credit risk at the reporting dates is the carrying amount of the debt securities classified as loans and receivables. None of the debt securities are either past due or expired.

Notes to the consolidated financial statements (*continued*)**17 Other financial assets (*continued*)**

As at 31 December 2010 the fair value and carrying value of the financial assets reclassified from available for sale financial assets in 2008 were €39.4m (31 December 2009: €71.3m) and €39.8m (31 December 2009: €77.3m) respectively. If the financial assets had not been reclassified a fair value gain of €4.8m (2009: loss of €1.8m) would have been recognised in equity. The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium appropriate to the unlisted securities. €0.8m (2009: €2.1m) was amortised from the available-for-sale reserve to the income statement in the period.

The effective interest rates of the financial assets reclassified into loans and receivable at the date of reclassification were between 2.8% and 4.5%.

The estimated undiscounted cash flows that the Group expected to recover from the remaining reclassified financial assets as at the date of reclassification was:

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over five years
	€'000	€'000	€'000	€'000
Unlisted debt securities:	-	-	39,452	-

**18 Derivative financial instruments**

	2010	2010	2009	2009
	€'000	€'000	€'000	€'000
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap	-	6,317	-	7,303
Forward foreign exchange contracts	32,433	1,194	19,831	-
Forward fuel price contracts	16,290	-	4,717	11,873
<b>Total</b>	<b>48,723</b>	<b>7,511</b>	<b>24,548</b>	<b>19,176</b>
<b>Less non-current portion:</b>				
Cross-currency interest rate swap	-	-	-	7,303
Forward foreign exchange contracts	5,626	-	5,348	-
Forward fuel price contracts	2,836	-	1,501	-
<b>Total non-current portion</b>	<b>8,462</b>	<b>-</b>	<b>6,849</b>	<b>7,303</b>
Current portion	40,261	7,511	17,699	11,873

*Foreign exchange contracts*

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were €765.6m (2009: €975.0m).

*Cross currency interest rate swap*

The notional principal amount of the outstanding cross currency interest rate swap contract at 31 December 2010 was €20.2m (2009: €20.2m)

At 31 December 2010 the fixed interest rates vary from 2.5% to 3.8% (2009: 2.5% to 3.8%).

**18 Derivative financial instruments (continued)***Aircraft fuel price contracts*

The Group enters into derivative contracts to fix the price of its forecast aircraft fuel purchases. The notional principal amounts of the outstanding contracts at 31 December 2010 were €199.6m (2009: €194.1m). The outstanding fuel price contracts at 31 December 2010 amounted to 333,304 metric tonnes of aircraft fuel (2009: 379,403 metric tonnes).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

A credit for ineffectiveness of €0.3m is reflected in the income statement in 2010 (2009: charge €0.7m).

**19 Inventories**

	2010	2009
	€'000	€'000
Sundry inventory	1,280	816

**20 Trade and other receivables**

	2010	2009
	€'000	€'000
Trade and other receivables	32,910	32,022
Other amounts receivable	41,169	38,374
Prepayments and accrued income	6,125	3,440
Value Added Tax	2,250	1,999
	<b>82,454</b>	<b>75,835</b>

The fair value of trade and other receivables approximate their book values.

There is no geographical concentration of credit risk with respect to trade and other receivables as the Group has a large and widely dispersed customer base.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

At 31 December 2010, trade and other receivables of €4.1m (2009: €3.8m) were past due but not impaired. They relate to a number of independent airline customers that have no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010	2009
	€'000	€'000
Up to 1 month past due	3,626	2,438
Over 1 month past due	512	1,351
	<b>4,138</b>	<b>3,789</b>

Notes to the consolidated financial statements (*continued*)**20 Trade and other receivables (*continued*)**

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2010	2009
	€'000	€'000
Euro	49,894	44,187
US dollar	26,758	26,232
UK pound	5,725	4,824
Other currencies	77	592
	<b>82,454</b>	<b>75,835</b>

**21 Deposits and cash and cash equivalents**

The Group's gross cash balances consists of loans and receivables, deposits and cash and cash equivalents

	2010	2009
	€'000	€'000
<b>Non-current</b>		
Loans and receivables (Note 17)	39,790	71,944
Deposits	128,359	90,260
	<b>168,149</b>	<b>162,204</b>
<b>Current</b>		
Loans and receivables (Note 17)	-	5,362
Deposits	420,885	490,425
Cash and cash equivalents	305,999	170,475
Bank overdrafts	(9,988)	-
	<b>716,896</b>	<b>666,262</b>
<b>Total gross cash</b>	<b>885,045</b>	<b>828,466</b>

At 31 December 2010 the Group held deposits of €49.3m (31 December 2009: €58.9m), which were not available for immediate use by the Group.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows:

	2010	2009
	€'000	€'000
Cash and deposits, net of overdrafts, with an original maturity of less than three months	296,011	170,475

## 21 Deposits and cash and cash equivalents (*continued*)

During the year deposits with a maturity date of less than three months were reclassified to cash and cash equivalents. Comparative balances have been updated accordingly.

The carrying amount of the Group's cash, cash equivalents and the deposits are denominated in the following currencies:

	2010	2009
	€'000	€'000
Euro	462,059	404,948
US dollar	381,525	343,939
Pound sterling	(95)	736
Other	1,766	1,537
	<b>845,255</b>	<b>751,160</b>

Current deposits have maturity terms of between three and twelve months. Given that the maturity of these investments falls outside the three months timeframe for classification as cash and cash equivalents under IAS 7 Statement of Cash Flows, the related balances have been treated as 'deposits'. The effective interest rate on financial assets classified as current deposits was 1.14% (2009: 2.22%). These deposits have an average maturity of 118 days (2009: 90 days).

The Group holds deposits in order to meet certain finance lease obligations, which are denominated in the same currency, and non-current deposits mainly comprise of these. The deposits, together with the interest receivable thereon, will be sufficient to meet in full the lease obligations and related lease interest over the period of the leases. Restricted deposits are also held to meet certain loan obligations

## 22 Trade and other payables

	2010	2009
	€'000	€'000
Trade payables	51,880	66,415
Accruals and deferred income	56,830	72,643
Ticket sales in advance	120,652	118,451
Employment related taxes	7,891	12,986
Other amounts payable	61,864	70,215
	<b>299,117</b>	<b>340,710</b>

The carrying values of trade and other payables approximate their fair value.

Notes to the consolidated financial statements (*continued*)**23 Finance lease obligations**

	2010	2009
	€'000	€'000
Repayable – within one year	55,573	48,247
Repayable – from one to two years	33,302	47,969
Repayable – from two to five years	225,296	142,639
Repayable – after five years	221,060	253,766
	<b>535,231</b>	492,621
<b>Less current portion</b>	<b>(55,573)</b>	(48,247)
<b>Non-current portion</b>	<b>479,658</b>	444,374

Total borrowings include secured liabilities (bank and collateralised borrowings) of €535.2m (2009: €492.6m). Bank borrowings are secured by various items of property, plant and equipment of the Group, mainly aircraft (Note 14).

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts	Carrying amounts	Fair values	Fair values
	2010	2009	2010	2009
	€'000	€'000	€'000	€'000
Finance lease obligations	535,231	492,621	526,132	399,562

The fair values are based on cash flows discounted using a rate based on prevailing forward market rates. In 2010, these rates ranged from 0.3% to 3.5%.

The carrying amounts of short-term borrowings approximate their fair values.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2010	2009
	€'000	€'000
Euro	122,702	74,720
US dollar	412,529	417,901
	<b>535,231</b>	492,621

The effective interest rates at the balance sheet date were as follows:

	2010	2010	2009	2009
	€	\$	€	\$
Finance lease obligations	3.8%	2.0%	3.8%	2.0%

**23 Finance lease obligations (continued)****Finance lease obligation – minimum lease payments**

	2010	2009
	€'000	€'000
No later than one year	78,381	70,952
Later than one year but no later than five years	325,606	265,190
Later than five years	251,314	278,987
	<b>655,301</b>	615,129
Future finance charges on finance leases	<b>(120,070)</b>	(122,508)
Capital value of finance lease liabilities	<b>535,231</b>	492,621

The Group had no undrawn borrowing facilities at 31 December 2010 or 31 December 2009.

**24 Provisions for liabilities and charges**

	Business repositioning (a)	Aircraft maintenance (b)	Other (c)	Total
	€'000	€'000	€'000	€'000
At 1 January 2009	129,498	51,595	24,413	205,506
Provided during the period	89,979	13,838	18,370	122,187
Written back during the period	-	(13,413)	-	(13,413)
Utilised during the period	(124,173)	(15,957)	(617)	(140,747)
At 31 December 2009	95,304	36,063	42,166	173,533
At 1 January 2010	95,304	36,063	42,166	173,533
Provided during the period	29,500	13,120	-	42,620
Written back during the period	(7,669)	(4,060)	(2,940)	(14,669)
Utilised during the period	(41,486)	(5,569)	(2,879)	(49,934)
<b>At 31 December 2010</b>	<b>75,649</b>	<b>39,554</b>	<b>36,347</b>	<b>151,550</b>

	Business repositioning (a)	Aircraft maintenance (b)	Other (c)	Total
	€'000	€'000	€'000	€'000
<b>Analysed as current liabilities</b>				
31 December 2010	47,162	21,536	2,840	71,538
31 December 2009	46,579	6,794	5,110	58,483
<b>Analysed as non-current liabilities</b>				
31 December 2010	28,487	18,018	33,507	80,012
31 December 2009	48,725	29,269	37,056	115,050
<b>Total provision</b>				
31 December 2010	75,649	39,554	36,347	151,550
31 December 2009	95,304	36,063	42,166	173,533

Notes to the consolidated financial statements (*continued*)**24 Provisions for liabilities and charges (*continued*)***(a) Business repositioning*

A provision for business repositioning costs is recognised when a constructive obligation exists. The amount of the provision is based on the terms of business repositioning measures, including employee severance and early retirement measures which have been communicated to employees. They represent the Directors' best estimate of the cost of these measures, having regard to the current status of negotiations. The amount provided during the period for business repositioning includes €29.5m related to the leave and return issue discussed in note 9. This provision is expected to be materially utilised within the next two financial years.

*(b) Aircraft maintenance*

A provision is made on a monthly basis for maintenance of aircraft held under operating leases. The provision will be utilised as the major airframe and engine overhauls take place. Aircraft maintenance also includes provision for the costs to meet the contractual return conditions on these aircraft. This provision is expected to be materially utilised over the next 12 financial years.

*(c) Other*

Other provisions relate mainly to the frequent flyer programme and post cessation of employment obligations to current and former employees. The frequent flyer provision is utilised when points are used or when they become non-redeemable. Points are redeemable for a maximum of three years. The post cessation of employment obligations provision is accrued or utilised based on actuarial valuations carried out on an annual basis.

**25 Deferred tax**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2010	2009
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	59,597	52,080
Deferred tax liability to be recovered after more than 12 months	(46,060)	(47,325)
<b>Deferred tax asset</b>	<b>13,537</b>	<b>4,755</b>

The gross movement on the deferred tax account is as follows:

	2010	2009
	€'000	€'000
Deferred asset at 1 January	4,755	3,352
Income statement credit	15,760	11,969
Tax charged directly to equity	(6,978)	(10,566)
Deferred tax asset at 31 December	<b>13,537</b>	<b>4,755</b>

## 25 Deferred tax (continued)

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Provisions	Tax losses	Total
	€'000	€'000	€'000
<b>At 1 January 2009</b>	10,415	23,573	33,988
Credited to the income statement	5,527	12,565	18,092
<b>At 31 December 2009</b>	15,942	36,138	52,080
(Charged)/credited to the income statement	(4,711)	12,228	7,517
<b>At 31 December 2010</b>	<b>11,231</b>	<b>48,366</b>	<b>59,597</b>

Deferred tax liabilities	Accelerated tax depreciation	Derivative financial instruments	Available-for-sale reserve	Other	Total
	€'000	€'000	€'000	€'000	€'000
<b>At 1 January 2009</b>	39,370	(9,083)	195	154	30,636
Charged to the income statement	6,123	-	-	-	6,123
Charged/(credited) directly to equity	-	10,756	(41)	(149)	10,566
<b>At 31 December 2009</b>	45,493	1,673	154	5	47,325
Credit to the income statement	(8,243)	-	-	-	(8,243)
Charged/(credited) directly to equity	-	6,949	(82)	111	6,978
<b>At 31 December 2010</b>	<b>37,250</b>	<b>8,622</b>	<b>72</b>	<b>116</b>	<b>46,060</b>

Deferred tax (charged)/credited to equity during the period is as follows:

	2010	2009
	€'000	€'000
Fair value reserves in shareholders' equity		
- Cash flow hedging reserve	(6,949)	(10,756)
- Revaluation reserve on available-for-sale financial assets	82	41
Share based payment reserve	(111)	149
	<b>(6,978)</b>	<b>(10,566)</b>

The Group is satisfied, based on expected future performance, as indicated by the Group's five year projections, that there is a reasonable basis on which to recognise the deferred tax assets.

Notes to the consolidated financial statements (*continued*)**26 Called-up share capital**

	2010	2009
	€'000	€'000
<b>Authorised</b>		
900,000,000 ordinary shares of €0.05 each	45,000	45,000
<b>Issued and fully paid</b>		
At 1 January	26,702	26,698
Issued during the period: NIL €0.05 (2009: 5,690,969 @ €0.05)	-	284
Cancelled during the period: NIL (2009: 5,605,347 @ 0.05)	-	(280)
At 31 December	26,702	26,702

In May 2009 5,690,969 shares were issued in respect of the Group's Long Term Incentive Plan (LTIP), for the vesting period ending 31 December 2011. In September 2009 the Company acquired 5,605,347 shares from ALG Trustee Limited, the trustee of the Group's LTIP, and subsequently cancelled the acquired shares.

The total number of ordinary shares of €0.05 each in issue at 31 December 2010 was 534,040,090 (31 December 2009: 534,040,090) of which 4,446,658 (31 December 2009: 4,446,658) were treasury shares.

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

	2010	2009
	€'000	€'000
<b>Share premium</b>		
At 1 January	510,605	506,847
Shares issued at premium	-	3,758
At 31 December	510,605	510,605
<b>Capital conversion reserve fund</b>		
At 1 January and 31 December	5,048	5,048
<b>Capital redemption reserve fund</b>		
At 1 January	343,796	343,516
Shares cancelled during the period	-	280
At 31 December	343,796	343,796

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

	2010	2009
	€'000	€'000
<b>Other reserves</b>		
<i>Cash flow hedging reserve</i>		
At 1 January	11,705	(63,594)
Movement in the period	55,595	86,055
Deferred tax on movement in the period	(6,949)	(10,756)
At 31 December	60,351	11,705
<i>Available-for-sale reserve</i>		
At 1 January	1,223	3,242
Movement in the period	(795)	(2,060)
Deferred tax on movement in year	82	41
At 31 December	510	1,223
<i>Treasury shares</i>		
At 1 January	(6,326)	(9,137)
Purchase of shares	-	(4,159)
Cancellation of shares	-	6,970
At 31 December	(6,326)	(6,326)
<i>Share based payment reserve</i>		
At 1 January	41	1,081
Movement in the period	882	(1,189)
Deferred tax on movement in the period	(111)	149
At 31 December	812	41
<b>Total other reserves</b>	<b>55,347</b>	<b>6,643</b>

**Long Term Incentive Plan (“LTIP”)**

In July 2007, arising from the review of the Group’s compensation arrangement for executive directors and senior managers, the Company’s shareholders approved the introduction of a LTIP in order to further align the interests of such executives and senior managers with those of shareholders. The LTIP is a share based performance award scheme, which provides for the vesting of shares subject to the achievement of minimum performance objectives measured over a three year period. The LTIP is tied to achievement of both a targeted Business Performance Measure (selected by the Remuneration Committee) and to Total Shareholder Return (TSR). The TSR element is assessed against a peer group of European airlines and the Companies of the ISEQ general index. The Business Performance Measure is set by the Remuneration Committee. The maximum award under the LTIP is 150% of base salary. The maximum number of shares that can vest is set at 125% of the maximum salary multiple. Awards under the LTIP can be made on an annual basis at the discretion of the Remuneration Committee.

Under the terms of the Group’s LTIP an early vesting of an award may occur at the discretion of the Remuneration Committee if there were to be a change of control of the Company. 4,446,658 shares have been issued in respect of the LTIP and are registered in the name of ALG Trustee Limited. Any voting rights attaching to the shares are exercised in the absolute discretion of the ALG Trustee Limited having regard to the interests of the LTIP participants.

Notes to the consolidated financial statements (*continued*)**27 Share premium, capital conversion reserve fund, capital redemption reserve fund and other reserves (*continued*)**

For awards issued in 2010, the Remuneration Committee set the Business Performance Measure as positive cumulative EBITDAR (before exceptional items as determined by the Remuneration Committee) of, or in excess of €100 million during the performance period and positive EBITDAR as shown in the Company's financial accounts in the final year of the performance period (before exceptional items as determined by the Remuneration Committee). Conditional awards granted under the Company's LTIP in the year ended 31 December 2010 amounted to 4,409,994 ordinary shares (2009:4,552,775). The share price was €1.054 (2009: €0.71) at the date of the award and fair value was determined to be €1.10 (2009: €Nil).

Shares awarded under the Group's LTIP are equity settled share based payments as defined in IFRS 2 *Share Based Payments*. The expense of €542,473 (2009: €Nil) reported in the income statement has been arrived at through applying a Monte Carlo simulation technique to model the combination of market and non-market based performance conditions of the plan.

**Impact on income statement**

The total expense is analysed as follows:

	<b>Expense in the consolidated income statement</b>
2010 Long Term Incentive Plan	
Staff costs	<b>542</b>

The 2010 awards will expire in 2012.

The fair value of the shares awarded were determined using a Monte Carlo simulation technique, taking account of peer group total share return volatilities and correlations, together with the following assumptions:

	<b>2010</b>	<b>2009</b>
Risk free interest rate	<b>1.73%</b>	2.83%
Expected volatility	<b>62.00%</b>	50.59%
Dividend yield	<b>0.00%</b>	0.00%

Expected volatility was determined by calculating the historical volatility of the Company's share price.

**Share options**

On 8 September 2009, Mr Christoph Mueller was granted share options in respect of 1,500,000 shares. The exercise price in respect of the options over 500,000 shares which become exercisable on or after 7 September 2012 and are exercisable until 7 September 2019 is €0.573 per share; the exercise price in respect of the options over 500,000 which may become exercisable on or after 7 September 2013 and are exercisable until 7 September 2019 is €0.677 per share and the exercise price in respect of the options over 500,000 shares which may become exercisable on or after 7 September 2014 and are exercisable until 7 September 2019 is €0.886.

The share options granted during 2009 are equity settled share-based payments as defined in IFRS 2 *Share-based Payments*. The IFRS requires that a recognised valuation methodology be employed to determine the fair value of share options granted and stipulates that this methodology should be consistent with methodologies used for the pricing of financial instruments. The expense of €147,067 (2009: €46,336) reported in the income statement has been arrived at through applying a Binomial lattice option-pricing model. The weighted average fair value of the share options granted in 2009 at the measurement date was €0.37 per share. The inputs used in the option-pricing model included a share price of €0.58 per share, a dividend yield of 0%, a risk free rate of 4.70% and volatility of 50.63%. The options were assumed to be exercised when optimal in the Black-Scholes sense.

## 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.

## 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
	<b>903,439</b>	<b>890,842</b>

### 30 Financial commitments (continued)

#### (b) Lease commitments

At 31 December 2010 the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property	Aircraft	Plant and machinery
	€'000	€'000	€'000
No later than one year	8,130	46,778	69
Later than one year but no later than five years	28,171	95,109	-
Later than five years	49,916	7,543	-
	<b>86,217</b>	<b>149,430</b>	<b>69</b>

At 31 December 2009 the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property	Aircraft	Plant and machinery
	€'000	€'000	€'000
No later than one year	8,484	45,690	74
Later than one year but no later than five years	26,292	93,428	-
Later than five years	64,142	10,598	-
	<b>98,918</b>	<b>149,716</b>	<b>74</b>

#### Surrender of Aer Lingus Head Office Building site

In June 2010, the Group signed a Heads of Agreement with Dublin Airport Authority (“DAA”) under which it has agreed to surrender the leasehold interest in its Head Office Building site (“HOB site”) to DAA.

The HOB site comprises a 9.9 acre area on which the Group’s Head Office (“HOB”), Services Annex and Iolar House are currently located. The HOB is in need of refurbishment and will be too large for the Group’s requirements following the “Greenfield” cost reduction programme. Employees, administrative and support services currently based in the HOB will re-locate to Hangar 6 and other parts of Aer Lingus’ property portfolio during the course of 2011. This transaction represents a cost effective consolidation of the Group’s real estate portfolio in a manner that will also improve operational efficiency.

As part of the arrangements for the surrender of the HOB site, DAA will pay Aer Lingus €10.55 million over 10 years and will provide Aer Lingus with certain services and facilities to an agreed value of €11.60 million over the same period.

The transaction is conditional on the conclusion of satisfactory contractual terms and any required approvals and is expected to complete in January 2012.

Notes to the consolidated financial statements (*continued*)**31 Related party transactions**

Key management compensation	2010	2009
	€'000	€'000
Short-term employee benefits	1,719	1,688
Post employment benefits	279	254
Termination benefits	630	1,017
Other benefits	1,488	278
	<b>4,116</b>	<b>3,237</b>

There was a charge of €263,000 to the income statement in 2010 in relation to the estimated cost of shares which could vest under the 2010 LTIP in respect of key management included above (2009: €Nil).

An amount of €146,404 was charged to the income statement during the period in respect of share options and a conditional share award granted to Mr Christoph Mueller on 8 September 2009 (2009: €46,337).

Amounts due to the Company from subsidiary undertakings are disclosed in Note 34.

The Minister for Finance of Ireland holds 25.11% of the Group's issued share capital and is entitled to appoint three directors to the Board. The Group considers that, for the purpose of IAS 24 (2009) the government of Ireland is in a position to exercise significant influence over it, and therefore regards the government of Ireland and various of its bodies, including the Dublin Airport Authority (DAA), as related parties for the purpose of the disclosures required by IAS 24 (2009).

The Group incurs rental charges in respect of office space, check in facilities and other operational facilities at various Irish airports. The Group also incurs passenger, landing and other charges for the use of these airports. The Group incurs air navigation charges as a result of services provided by the Irish Aviation Authority.

The Group collects Airport Departure Tax and various payroll taxes on behalf of the Irish Revenue Commissioners and is liable to Irish Corporation Tax on profits earned, and to employer's PRSI on its payroll. The Group accounts for VAT in Ireland.

The Group sells seats on its scheduled services to various Government bodies in the normal course of its business and has banking relationships with institutions now controlled by the Irish government. As an airline, the Irish Department of Transport is the Group's principal regulator.

The transactions described above are collectively but not individually significant to the financial statements.

In June 2010, the Group signed a Heads of Agreement with the DAA under which it has agreed to surrender the leasehold interest in its Head Office Building site to the DAA. Further details are provided in Note 30.

**32 Cash generated/(used) in operations**

	2010	2009
	€'000	€'000
Profit/(loss) before tax	33,447	(154,846)
<b>Adjustments for:</b>		
- Depreciation and amortisation	91,431	82,674
- Net movements in provisions for liabilities and charges	(45,455)	(116,907)
- Net fair value (gains)/losses on derivative financial instruments	(989)	704
- Share options and awards expense	882	46
- Gain recognised on assets received in-kind	-	(1,500)
- Finance income	(22,401)	(36,900)
- Finance expense	15,613	22,098
- Net exceptional items	6,234	88,630
- Other losses/(gains) – net	4,065	177
<b>Changes in working capital</b>		
- Inventories	(464)	(302)
- Trade and other receivables	(5,757)	3,265
- Trade and other payables	(30,091)	(55,252)
Cash generated/(used) in operations	46,515	(168,113)

**33 Financial assets – Company**

Investment in subsidiaries

	2010	2009
	€'000	€'000
<b>Cost</b>		
At 1 January and 31 December	109,696	109,696

During the year, Aer Lingus Beachey Limited declared a dividend of €26,083,189 in favour of Aer Lingus Group Plc.

**34 Trade and other receivables – Company**

	2010	2009
	€'000	€'000
Amounts due from subsidiary undertakings	833,806	807,722

The fair value of trade and other receivables equate to their book value at 31 December 2010 and 2009. The maximum exposure to credit risk is the fair value of trade and other receivable above. There was no impairment of these trade and other receivables at 31 December 2010 and 2009.

**35 Events after the reporting period**

In January 2011, the Group entered into a finance lease arrangement for the purchase of an Airbus A320 aircraft, resulting in an increase in finance lease obligations of €25.2m.

On 3 March the group announced that it had reached a settlement with the Irish Revenue Commissioners in relation to PAYE, PRSI, interest and related costs arising from a restructuring programme negotiated in 2008 and implemented in 2009.

On 23 March, the Company took delivery of an additional A320 aircraft, resulting in an increase in finance lease obligations of €23.7m.

# Shareholder information

## 2011 financial calendar

Annual General Meeting	6 May 2011
2011 H1 period ends	30 June 2011
2011 H1 results	August 2011
2011 FY ends	31 December 2011

## Share price data

	€
Share price movement during 2010	
- High	1.17
- Low	0.56
Share price at 31 December 2010	1.08
Market capitalisation at 31 December 2010	577.0m
Share price at 24 March 2011	0.78
Market capitalisation at 24 March 2011	421.9m

## Shareholder analysis at 24 March 2011

Range of shares held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	454,191,848	85.05	75	1.05
100,001 – 250,000	4,167,681	0.78	28	0.39
10,001 – 100,000	58,397,409	10.94	3,077	42.99
Up to 10,000	17,283,152	3.24	3,977	55.57
Total	534,040,090	100.00	7,157	100.00

## Share listing

Aer Lingus' shares are traded on the Irish Stock Exchange and the London Stock Exchange and are quoted on the official lists of both the Irish Stock Exchange and the UK Listing Authority.

ISIN: IE00B1CMPN86	ISE Xetra: Aer Lingus Group plc
MNEM – ISE: EIR1	MNEM – LSE: AERL
Bloomberg: AELGF	Reuters: AERL.I, AERL.L

## Crest

Aer Lingus Group plc is a member of the CREST share settlement system. Shareholders may continue to hold paper share certificates or hold their shares in electronic form.

## Electronic proxy voting and CREST voting

Shareholders may lodge a proxy form for the 2011 Annual General Meeting electronically. Shareholders who wish to submit proxies via the internet may do so by accessing the Registrars' website (see below). Instructions on using the service are sent to shareholders with their proxy form. Shareholders must register for this service on-line before the electronic proxy service can be used.

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.

## Website

The Group's website, [www.aerlingus.com](http://www.aerlingus.com), contains a separate Investor Relations section. This provides the full text of the Annual and Interim Reports and copies of presentations to analysts and investors. News releases are also made available in this section of the website immediately after release to the Stock Exchanges.

## Investor relations

For investor enquiries please contact:

Declan Murphy  
T: +353 1 886 2228  
E: [investor.relations@aerlingus.com](mailto:investor.relations@aerlingus.com)

Jonathan Neilan  
FDK Capital Source  
T: +353 1 663 3686  
E: [aerlingus@kcapitalsource.com](mailto:aerlingus@kcapitalsource.com)

## Registered office and number

Number: 211168

Dublin Airport  
Co. Dublin  
Ireland

## Registrars

For all queries on shareholdings please contact our registrars:

Capita Registrars (Ireland) Limited  
Unit 5 Manor Street Business Park  
Manor Street  
Dublin  
Ireland  
T: +353 1 810 2400  
F: +353 1 840 2422  
E: [enquiries@capitaregistrars.ie](mailto:enquiries@capitaregistrars.ie)

Our registrars also operate a "Shareholder Portal" through which you can enquire on and view your shareholding details. This can be accessed from their website at [www.capitacorporateregistrars.ie](http://www.capitacorporateregistrars.ie)

## Company officers and advisors

### Directors

Colm Barrington (Chairman)  
Christoph Mueller (Chief Executive Officer)  
Andrew Macfarlane (Chief Financial Officer)  
Laurence Crowley (Senior Independent Director)  
Montie Brewer (Non-executive Director)  
Leslie Buckley (Non-executive Director)  
David Begg (Non-executive Director)  
Thomas Corcoran (Non-executive Director)  
Laurence Crowley (Non-executive Director)  
Mella Frewen (Non-executive Director)  
Danuta Gray (Non-executive Director)  
Francis Hackett (Non-executive Director)  
Colin Hunt (Non-executive Director)  
Thomas Moran (Non-executive Director)  
Nicola Shaw (Non-executive Director)

### Company secretary

Donal Moriarty

### Independent auditors

PricewaterhouseCoopers  
Chartered Accountants  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

### Legal advisors

Arthur Cox  
Earlsfort Terrace  
Dublin 2  
Ireland

### Sponsors

Goodbody Corporate Finance  
Ballsbridge Park  
Ballsbridge  
Dublin 4  
Ireland

# Operating and financial statistics

For the year ended 31 December 2010

	2010	2009	Change	2008	2007	2006
<b>Long haul <sup>(1)</sup></b>						
Number of routes flown	6	9	-33.3%	11	11	10
Number of sectors flown (flights)	3,805	4,884	-22.1%	5,939	7,003	4,574
Average sector length (in kilometres)	5,258	5,472	-3.9%	5,764	5,600	5,544
Number of passengers (in thousands)	908	1,077	-15.7%	1,264	1,235	1,118
Average fare (including airport charges/taxes) (in €)	304.10	255.70	18.9%	303.87	296.87	280.90
Utilisation (average block hours per aircraft per day)	10.4	11.6	-10.3%	14.3	14.0	13.9
RPKs (in millions)	4,766	5,854	-18.6%	7,168	6,790	6,112
AKS (in millions)	6,081	8,008	-24.1%	10,042	8,890	7,613
Passenger load factor (flown RPKs per ASKs)	78.4%	73.1%	5.3%	71.4%	76.4%	80.3%
Average number of aircraft	7.2	8.5	-15.3%	9	8.1	7.0
Scheduled cargo tonnes	23,781	18,815	26.4%	23,408	23,747	23,052
<b>Short haul <sup>(2)</sup></b>						
Number of routes flown	102	107	-4.7%	95	84	75
Number of sectors flown (flights)	64,306	69,661	-7.7%	66,831	60,217	55,334
Average sector length (in kilometres)	1,046	1,048	-0.2%	1,017	981	953
Number of passengers (in thousands)	8,438	9,305	-9.3%	8,737	8,070	7,513
Average fare (including airport charges/taxes) (in €)	85.90	77.10	11.4%	87.57	93.77	90.99
Utilisation (average block hours per aircraft per day)	9.3	10.2	-8.8%	10.4	10.1	9.7
RPKs (in millions)	9,129	9,965	-8.4%	9,109	8,017	7,251
AKS (in millions)	12,188	13,220	-7.8%	12,328	10,743	9,613
Passenger load factor (flown RPKs per ASKs)	74.9%	75.4%	-0.5%	73.9%	74.6%	75.4%
Average number of aircraft	36.0	35.3	2.0%	32.6	29.4	27.5
Scheduled cargo tonnes	8,829	6,718	31.4%	4,536	3,367	2,560

(1) excludes extended codeshare agreement with United Airlines.

(2) excludes Aer Lingus Regional Services operated by Aer Arann.



**Aer Lingus**   
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