

Aer Lingus 

annual report 2009

Route Network

- Existing Routes
- Aer Lingus regional operated by Aer Arann
- Routes commencing
- Routes concluding
- Cargo Routes



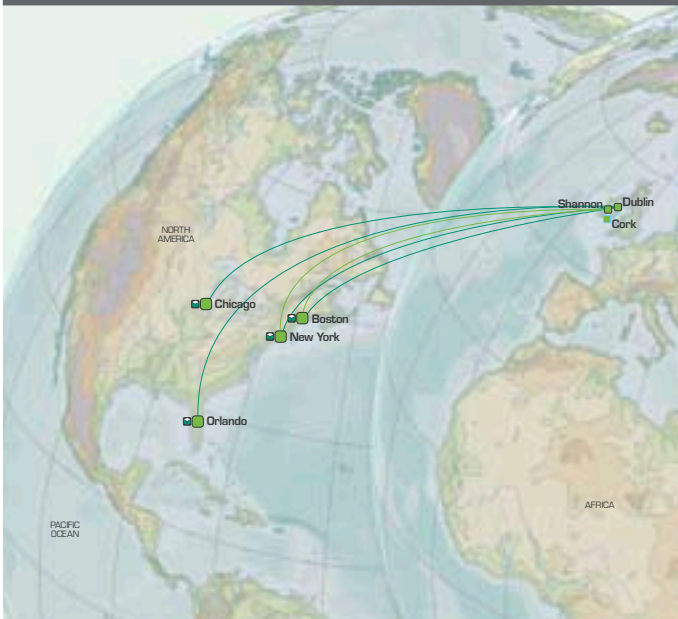
USA & EUROPE – CONNECT BETWEEN THE FOLLOWING CITIES VIA DUBLIN & SHANNON, NEW YORK, BOSTON & CHICAGO



EUROPE TO & FROM BELFAST, CORK, SHANNON & GATWICK



EUROPE TO & FROM DUBLIN



USA TO & FROM DUBLIN, CORK & SHANNON



USA

Financial Highlights

For the year ended 31 December 2009

Results

		2009	2008 ¹	Change
Revenue	€m	1,205.7	1,355.0	(11.0%)
EBITDAR ²	€m	57.5	103.1	(44.2%)
Operating loss before net exceptional items	€m	(81.0)	(20.0)	305.0%
Net exceptional items	€m	(88.6)	(140.9)	(37.1%)
Operating loss after net exceptional items	€m	(169.6)	(160.9)	5.4%
Net finance income	€m	14.8	38.8	(61.9%)
Income tax credit	€m	24.7	12.2	102.5%
Loss for the year	€m	(130.1)	(109.9)	18.4%
Total equity	€m	704.5	762.5	(7.6%)
Loss per share	€cent	(24.6)	(20.7)	18.8%
Gross cash ³	€m	828.5	1,206.8	(31.3%)

Key financial statistics

Passenger/ancillary revenue per RPK	€cent/RPK	7.4	8.0	(7.5%)
Unit cost, excluding fuel ⁴	€cent/RPK	3.85	3.80	1.3%
Unit cost, including fuel	€cent/RPK	5.41	5.60	(3.4%)
EBITDAR margin	%	4.8%	7.6%	(2.8pt)
Operating margin	%	(6.7%)	(1.5%)	(5.2pt)

Key operating statistics⁵

Passengers carried	'000	10,382	10,001	3.8%
Revenue passenger kilometres (RPK)	m	15,819	16,277	(2.8%)
Available seat kilometres (ASK)	m	21,228	22,370	(5.1%)
Passenger load factor	%	74.5%	72.8%	1.7pt

1 2008 figures have been restated following the adoption of IFRIC 13 *Customer Loyalty Programmes*.

2 Earnings before employee profit share, interest, tax, depreciation, amortisation and aircraft rentals.

3 Gross cash is defined as loans and receivables, deposits and cash and cash equivalents.

4 Unit cost is based on total operating costs, excluding depreciation, amortisation, aircraft rentals, employee profit share and fuel, divided by revenue passenger seat kilometres.

5 Key operating statistics related to scheduled passenger operations.

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Chairman's Statement



Dear fellow shareholders

Commercial Overview

Last year was a very difficult one for Aer Lingus. We experienced adverse conditions in all our markets and particularly in Ireland, where economic recession, high unemployment and loss of consumer confidence contributed to a significant decline in the demand for air travel.

Conditions in the Irish market were exacerbated by the introduction, in April 2009, of a €10 tax on air travellers. It is difficult to understand why air travellers should be singled out for such a tax at a time when Irish commercial activity, and especially travel and tourism, urgently requires stimulation rather than taxation.

Our North American and UK markets were also adversely affected by weak economic and consumer conditions there along with the strength of the Euro against the US dollar and pound Sterling. Combined with the high cost of accommodation and other goods and services, our strong currency has made Ireland an even more expensive option for international travellers. Reductions in the cost base of our economy at all levels will be important for its future success.

The severity of the economic downturn in 2009 and its impact on air travel was unprecedented. Aer Lingus entered 2009 with too much capacity and several long haul routes that were no longer sustainable in the changed market environment. Fare discounting to fill these surplus seats was not the solution, and the lower fares we offered had the effect of diluting our yields across the system. Our average system-wide yield in Q1 2009 was 14.5% lower than in the same period of 2008.

These factors contributed to our operating loss of €93 million in the January-June 2009 period. At the same time our gross cash declined by €155 million, from €1,207 million at 31 December, 2008 to €1,052 million at 30 June, 2009. This reduction reflected approximately €97 million spent on staff restructuring costs and €137 million on aircraft purchases, with these outflows being partly offset by inflows from borrowings and other miscellaneous items.

The significant operating loss and the reductions in our cash emphasised the need for significant changes at Aer Lingus, which commenced in April 2009.

First we re-gearred our flight schedule to better match the existing demand conditions, particularly suspending our direct services to San Francisco and to Washington D.C. However, by providing Aer Lingus services to and from our established bases in Boston, Chicago and New York with an expanded range of connecting flights on United Airlines and JetBlue Airways, we are now offering indirect services to a much broader range of North American cities than were available a year ago. Our new code share arrangements with Aer Arann are designed to offer similar frequency and cost improvements on our European network.

We also set about preserving our cash, through the operational measures referred to above, through reductions in our existing fleet and through significant deferrals of our future aircraft orders. We have stretched out future orders so that new deliveries will generally coincide with the need for replacement of existing aircraft. We greatly appreciate the

assistance of Airbus SAS in achieving these changes. We are confident that any future growth opportunities can be serviced with surplus aircraft from manufacturers, aircraft lessors and other secondary markets.

These actions have had a positive impact on our financial results. In the July through December 2009 period, Aer Lingus reported a small operating profit of €12 million (as compared to an operating profit of €3 million in the same period a year earlier). At the end of 2009 our cash balance was €829 million. Aer Lingus continues to have a strong balance sheet.

We also set about changing the culture, the work practices and the cost base at all levels in Aer Lingus. These changes started with the board where, in order to give the programme a kick start, our directors agreed to substantial reductions in their fees. This was unprecedented in Irish business and makes our directors' fees among the lowest of equivalent plcs. I greatly appreciate the support of all of the directors in giving this leadership.

We also have the benefit of a substantially new senior management team, lead by our Chief Executive Officer, Christoph Mueller. Christoph joined Aer Lingus on 1 September and his drive, expertise, knowledge and personality have been major contributors to the cultural changes that we are experiencing at Aer Lingus. Later in this report Christoph will explain to you his vision for Aer Lingus and how he, his management team and his staff will make Aer Lingus more attractive to our customers as *Ireland's Civilised Airline*.

Radical changes in corporate culture – particularly when they involve reductions in pay and increases in work – are not easy to achieve. However, Aer Lingus' employees have grasped and accepted the need for change. Their contributions to the change programme (named *Project Greenfield*) have been outstanding and are hugely appreciated. I believe that the changes that are being implemented at Aer Lingus will inure to the benefit of all our stakeholders; providing a better and differentiated product for

our **customers**, providing a secure, vibrant and positive working environment for our **employees** and providing an attractive investment proposition for our **shareholders**.

Market conditions remain difficult in 2010. However, while I am not expecting any immediate economic miracles, I know that the changes that have been made at Aer Lingus and the people who are managing and executing them are already contributing to improved operating results and cash protection, which will be enhanced as the economic environment improves.

Shareholders

Aer Lingus' shareholding base suffers from an over-concentration among a small number of shareholders, with three shareholders holding approximately 70% of our shares.

This situation is exacerbated by the fact that our largest shareholder – Ryanair Holdings – is also our most significant competitor. We believe that Ryanair's presence on our shareholder register and its actions, including its attempts to disrupt Aer Lingus through two unsuccessful hostile takeover attempts, is damaging to the interests of the shareholders of both companies. Any combination of Aer Lingus and Ryanair would result in a near monopoly of air transport in and out of Ireland and would be detrimental to the public interest. As a result it is unlikely to be successful. In addition, it is unlikely that a shareholding of this size by a major competitor would be allowed to prevail in most other EU jurisdictions as it is clearly anti-competitive.

The actions we are taking to position Aer Lingus for a successful future – providing a quality and good value service based on an efficient operation and supporting the development of the Irish economy generally – are the best ways to maximise value for all our shareholders.

Board

I am extremely grateful for the support of all the board members during the past, difficult year. The unanimous support of all of the directors for carrying through difficult issues has been a vital ingredient in effecting the changes already made. Management can rely on the full support of the board as they continue the vital change programme at Aer Lingus.

I would particularly like to thank our Senior Independent Director, Laurence Crowley, who joined the board in early 2009 and has been invaluable both as a questioner and a supporter to me during the last year. I would also like to welcome Montie Brewer and Nicola Shaw, who have recently joined as independent directors. Montie and Nicola bring huge experience of the airline and transport sectors and their appointments reflect Aer Lingus' ongoing commitment to best corporate practice and to board refreshment.

Leslie Buckley also joined the board during the year as a non-executive director. Leslie's extensive worldwide experience across several business sectors has brought a fresh perspective to the board.

Christoph Mueller joined the board following his appointment as Chief Executive Officer.

Two non-executive directors, Anne Mills and Chris Wall, retired from the board during the last year. I would like to thank both Anne and Chris most sincerely for their immense hard work and support for Aer Lingus over many years.

Following their resignations from the company, both Sean Coyle and Dermot Mannion resigned from the board.

People

2009 was a challenging year for Aer Lingus staff. Following an extensive series of negotiations, the members of five staff unions voted to support the *Project Greenfield* proposals, despite the significant changes that elements of this programme will involve for staff. The overall vote across all five unions was 74% in favour of the proposals.

It is a great tribute to Aer Lingus staff and a mark of their support for the company that agreement on these crucial measures was achieved without any disruption to our passengers. Despite intense negotiations over several months, our staff retained the positive and friendly attitude to our passengers for which Aer Lingus and its people are so admired.

We also welcomed new talent to the Aer Lingus management team and enhanced the responsibilities of existing executives.

As already mentioned, Christoph Mueller joined as Chief Executive Officer and an executive director. Christoph was appointed after a rigorous process and global search and he has the track record and skill-set to lead the Aer Lingus team through the current difficult operating environment and to make the airline successful as he is already demonstrating.

Michael Grealy joined as Director of Human Resources and Organisational Change. Michael is focussed on making the necessary changes to the way we do business while maintaining our reputation for excellent customer service.

Andrew Macfarlane joined as Interim Chief Financial Officer and is making a significant contribution to addressing the key financial and reporting challenges that the airline faces.

Stephen Kavanagh has been appointed Chief Commercial Officer with commercial responsibility for both the long and short haul businesses. Stephen's contribution in this vital area is already making a positive financial impact.

Enda Corneille has been appointed Director of Shared Services, where he will have particular responsibility for ensuring that Aer Lingus' information technology is brought up to the very latest standards. Enda will also continue in his role as Corporate Affairs Director.

We expect to announce the appointment of a new Chief Operating Officer shortly.

I am confident that under Christoph's leadership this new management team will bring about the changes required to make Aer Lingus successful. The repositioning of the company's product, the re-gearing of its operations, the improved efficiencies and the reduced costs produced by *Project Greenfield* are the key elements in achieving this success. Importantly, Aer Lingus' staff have shown that they want the company to succeed and that they are prepared to participate in the changes required to achieve success. I expect that over time these factors will be significantly to the benefit of all our stakeholders.

Sincerely

Colm Barrington
Chairman

28 April 2010

Chief Executive Officer's Review



Dear fellow shareholders

As you know I joined the Aer Lingus Group as CEO just over 7 months ago in September of last year, shortly after a significant half year loss was disclosed to you.

I spent the first few weeks “walking the shop floor” talking to our employees and managers in order to better understand the main imperatives for a successful turnaround of Aer Lingus.

I quickly came to the conclusion that Aer Lingus is an airline with high standards of operational excellence and a very motivated workforce prepared to face the challenges ahead. It was also clear to me that the positioning of Aer Lingus as a pure no frills carrier had not convinced our customers nor our employees and the prevailing question was around the future positioning of the airline. Cost levels had been addressed in the last number of years and, even before the implementation of our ‘Greenfield’ cost reduction programme, Aer Lingus’ cost position is amongst the most competitive in the industry. Staff costs excluding non-recurring provisions have been reduced by €40.1 million between 2008 and 2009, and will decrease by €40 million (exit run rate of €50 million) in 2010 as a result of ‘Greenfield’.

Service levels of Aer Lingus are and will be higher than those of a pure low cost carrier and this should be reflected in the overall revenue levels.

Aer Lingus is an airline with a proud tradition, celebrating its 75th birthday in May of next year and a company that has been privatised only some years ago. The Aer Lingus brand is one of the company's main assets and whilst the notion of a national carrier has become somewhat of an anachronism over the last decade, the employees of Aer Lingus are very proud to be perceived as Ireland's airline. The Aer Lingus brand is loaded with positive values such as good value, Irish hospitality, customer care and professionalism and all employees are prepared to deliver on this promise every day.

But the overall situation in 2009 was a call for immediate action. The immediate challenge was to “right-size” the company and to consolidate our route network to those destinations we can serve profitably during the ongoing economic downturn. Capacity cuts in our long haul service were overdue and the expansion of our brand in non-Irish markets had proven difficult. Short haul performance for 2009 was broadly breakeven despite the significant losses generated by the Gatwick base. The Gatwick losses were deemed unacceptable by management and resulted in a reduction in capacity which was announced in January 2010.

The pruning of our network back to our core markets has delivered instant results. We were able to stop the decline of unit revenue in the last quarter of 2009 and the first quarter of 2010 will show a significant improvement in unit revenue compared to the previous year, despite a continuing weak gross domestic product in our home market. We were able to keep our strong connectivity to Ireland and whilst other carriers had to withdraw from certain routes, our customers' loyalty enabled us to gain market share in an overall shrinking market.

As a consequence of the capacity reductions, we had to look at our cost base and address redundancies in our workforce as well as improve the efficiency of our operations. This became known as “Greenfield”. As part of this plan, a new management structure with a 40% reduction in management positions will enable an increased level of accountability and shorter decision-making processes.

On behalf of our Board of Directors and our shareholders, I was able to convey a message of gratitude to all our employees for giving us the mandate for change in an overall 74% positive vote for our ‘Greenfield’ cost reduction programme while at the same time having kept high standards of service during negotiations with the unions. Aer Lingus did not lose a single flight from its schedule during the five-month period of negotiations and we were able to conclude an agreement in March to reduce our cost base by 7.4%, a benchmark for the European Airline Industry.

Overall we are experiencing a new quality of teamwork within the company and everybody is aligned behind the target to return to profitability. Only a sustainable level of profitability will enable us to grow again beyond our current route network.

These first measures have stopped the bleeding. But what is the strategy for Aer Lingus going ahead?

Serving the Irish market means connecting the Irish population with a global diaspora of approximately 70 million friends and relatives and business travellers. While we are able to cover a good portion of this with our own airplanes, Aer Lingus' global coverage is dependant on a portfolio of strong partners. Our current partnerships with British Airways, KLM and United Airlines are continuing to be very successful and the new partnership with Jetblue in the USA has reached new levels: we are now able to connect passengers via John F. Kennedy Airport in New York and Logan Airport in Boston. After only a few

weeks since its launch, the code share partnership with Aer Arann is already very successful. Customers from secondary markets are appreciating an improved connectivity to Dublin and Cork and also via Dublin to North American destinations.

The Irish travelling public is very price sensitive and as a consequence Aer Lingus remains committed to offering lowest fares on its entire network. A more modular product offering will enable the customer to buy and assemble the product a la carte adding services on the ground and onboard according to individual needs. Continued ancillary revenue growth of 16.2% between 2008 and 2009 is encouraging us to differentiate ourselves from pure no frills carriers.

As our overall declining unit cost position is enabling attractive pricing in the market place, it is unfortunate that the cost of public infrastructure is increasing to levels never experienced before. Airport charges increased by €9.1 million on a year-on-year basis, due to rises in charges in Gatwick, Heathrow and Dublin. In Ireland in particular, airport related fees and a public departure tax have had a strong impact on customer demand.

The new open skies agreement between the USA and the European Union enabled Aer Lingus to enter into a new business venture with United Airlines. A combination of Aer Lingus' favourable cost position together with United's market penetration in the USA has enabled us to operate the Washington – Madrid route since March 2010. This venture has started very well in the first month of operation.

2010 Outlook

Trading conditions remain extremely challenging and Aer Lingus remains focused on actively managing yields and capacity to enhance its trading performance. In the first three months of 2010, the Group prioritised active management of yield per available seat kilometre as the primary means to drive performance. This has resulted in higher revenues per passenger than prior year.

Long haul revenue per passenger in the first three months was above prior year. Long haul operations benefited from a combination of higher yields and better load factors than we had expected at the start of the year.

Short haul revenue per passenger in the year to date was broadly in line with prior year.

The combination of slightly higher revenues and lower volume related costs has resulted in the business trading ahead of prior year for the first quarter. While the forward revenue profile remains positive, we have limited visibility at the moment over the second half of 2010 and all our primary markets remain in recession, in particular the Group's core Irish market.

The disruption of European air traffic and the cancellation of more than 1,500 Aer Lingus flights caused by the volcanic eruption in Iceland was an extraordinary event shared with most of our peers. We currently estimate the impact on our profits to be approximately €20 million but the long-term impact on customer confidence is as yet unclear. It is imperative that the Irish and other European Air Navigation Service providers react appropriately during any recurrence of such an event and accept the necessity to coordinate traffic in a single European airspace rather than remaining within national borders.

The Group's full year performance in 2010 is heavily dependent on the successful implementation of the Cost Reduction Programme. This represents a key performance indicator for the business in 2010. Although the Group has experienced a slight delay in commencing certain elements of the Cost Reduction Programme, it nonetheless still expects to achieve staff cost savings of €40 million (exit run rate of €50 million) in 2010 provided there is no disruption to service over the remainder of 2010.

Gross cash balances have steadily increased since the beginning of the year and the Group's liquidity position remains solid.



Valerie Ward, Aer Lingus Sales Manager Ireland, is presented with an award by Jim Vaughan, President of the Irish Travel Agents Association. Aer Lingus won first place for 'Best Airline to Europe' for the second year in a row, at the Irish Travel Trade News Awards.



Aer Lingus is awarded Northern Ireland's 'Best Low Fare Airline 2009' at the Northern Ireland Travel and Tourism Awards. Pictured centre-left: Andrea Hunter, Aer Lingus Business Development Manager Northern Ireland, centre-right: Valerie Ward, Aer Lingus Sales Manager Ireland.

We as a management team are confident that the foundation for a return to profitability is laid and that both, Aer Lingus' capabilities and the dedication of staff are aligned behind this target.

Christoph Mueller
Chief Executive Officer

28 April 2010

Operating and Financial Review

The Group reported an operating loss, before net exceptional items, of €81.0m (2008: €20.0m) for 2009. EBITDAR has reduced by €45.6m to €57.5m and the Group recorded a net loss for the year of €130.1m (2008: €109.9m).

Passenger revenue

Passenger revenue fell by 10.2% to €1,166.6m for the year. An additional 381,000 passengers were carried compared to 2008. Average fare per passenger fell by 16.8%; however, revenue per passenger (fare yield plus ancillary revenue) fell by 13.5% to €112.37. Total passenger load factor increased by 1.7 points to 74.5%.

Short haul

Total short haul passengers carried increased by 6.5% to 9,305,000, while average short haul fare decreased by 12.0% or €10.47 to €77.10 (2008: €87.57). The reduction in short haul average fare was partly offset by the growth in ancillary revenue per passenger of €1.78 or 11.9%.

Short haul capacity, measured by available seat kilometres (ASKs) grew by 7.2% due to the opening of the new Gatwick base in April 2009 and additional capacity added to the Belfast base, offset by a decrease in capacity across Irish short haul routes. Capacity utilisation, measured by revenue passenger kilometres (RPKs) increased by 9.4% resulting in short haul load factor increasing by 1.5 points to 75.4%.

Short haul performance for 2009 is broadly break-even (based on full allocation of fixed overheads), despite significant losses generated by the Gatwick base. These losses were unacceptable and resulted in the capacity reduction programme announced in January 2010. Trading at other bases was broadly satisfactory. While Belfast was loss-

making in 2009, it is a new base and its trading is on an improving trajectory.

Three A320s were added to the fleet, on operating leases, bringing the total short haul fleet to 36 aircraft. These additional aircraft were based at Gatwick.

As 2009 progressed it became clear that the Group was incurring unacceptable losses at Gatwick and a decision to reduce capacity at Gatwick was announced in January 2010. This is expected to improve the economics of the base from the second quarter of 2010.

Long haul

Total long haul passengers decreased by 14.8% to 1,077,000 and there was decrease of 15.9% in average long haul fare to €255.70 (2008: €303.87).

There was a significant decrease in long haul capacity in the year, as ASKs fell by 20.3% mainly due to the full year effect of the withdrawal from the Los Angeles and Dubai routes in 2008 and 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, with the exception of Chicago. RPKs decreased by 18.3% resulting in long haul load factor increasing by 1.7 points to 73.1%.

During the year two new A330s were delivered and three other A330s were returned to their lessors. A further A330 left the fleet in March 2010, 14 months ahead of schedule. Aer Lingus took delivery of an A330 in April 2010 as planned, bringing the total long haul fleet at that stage to eight A330 aircraft.

The capacity changes have improved the financial performance of the Group's long haul network but further work is required on the profitability of the winter schedule.

Ancillary

Ancillary revenue showed another strong performance in 2009, with total ancillary revenues reaching €173.9m, up 16.2% on 2008. This increase was achieved as a result of the additional passengers carried and, significantly, through the continued increase in per passenger spend, which increased by 11.9% to €16.75. The most significant ancillary revenue products are in-flight sales revenue, baggage fees, online booking fees, seat selection fees and passenger travel insurance.

Cargo

Aer Lingus' cargo strategy is to carry cargo on both long haul routes and on short haul routes where aircraft turnaround times permit. Total cargo revenue decreased by 31.8% to €34.3m (2008: €50.3m) driven by a decrease in tonnage, a fall in yields and a fall in fuel surcharge revenue. Short haul tonnage increased by 48.1% to 6,718 tonnes; however long haul tonnage decreased by 19.6% to 18,815 tonnes, resulting in total tonnage falling 8.6%. Average yield, excluding the industry fuel surcharge, decreased by 21.7%. Revenue from the fuel surcharge decreased by 51.9%.

Fleet utilisation

Aer Lingus was able to improve the economics of its long haul network due to tactical cancellations in the second half of 2009. A lower aircraft utilisation rate for the fleet has been accepted as a result.

Operating costs

Total operating costs, before net exceptional items, decreased by 6.4% to €1,286.7m, primarily as a result of lower fuel prices, a reduction in staff costs and distribution costs and an increase in gains realised on maturing



Aer Lingus was awarded 'Best Airline to Europe' at the Irish Travel Trade News Awards 2009. Pictured accepting the award are members of the Aer Lingus Sales Team (left to right): Alan Molloy, John Keogh, Fintan Lonergan and Ivan Beacon.

currency contracts in the year. Savings in these areas were offset in part by increases in depreciation, aircraft hire costs, and airport and en-route charges.

Fuel costs decreased by €69.6m (17.3%) to €331.7m due to a decrease in the price of oil, a decrease in the average hedged price per tonne, from \$1,007 to \$867, and a reduction of 2.4% in the total block hours for the year. The decrease was partly offset by the adverse movement in the US dollar, however this in turn was largely offset by gains on currency hedges, which are reflected in other gains/losses – net. Fuel represented 25.8% of total costs in the year, down from 29.2% in 2008. The average cost of fuel, including into plane fees, was \$929 per tonne, compared to \$1,100 per tonne in 2008.

Staff costs, which represent 24.3% of operating costs, decreased by 6.6% to €312.2m, as a result of agreements reached with unions in December 2008 and also the pay freeze in operation across the Group. These savings were somewhat offset by an increase in the provisions for potential employment-related claims certain staff may have. Average numbers employed fell by 4.7% to 3,844 (2008: 4,035) despite the additional staff recruited for our new Gatwick base. Staff costs per passenger fell by 10.1% to €30.07.

Airport charges, which represent 19.6% of operating costs, increased by 3.7% to €252.0m (2008: €242.9m) due, primarily, to increases in the rates charged by, largely regulated, airport authorities and the increase in passenger numbers.

Aircraft operating lease costs increased by 8.9% to €55.8m (2008: €51.3m) due to the full year effect of an A320 taken on an operating lease in June 2008; three additional A320 aircraft taken on operating leases from April 2009 to service the new Gatwick base; and the adverse impact of the movement in the US dollar during the year. These increases were offset by the early return of two A330-300s and one A330-200 to their lessors during the year.

Maintenance costs decreased by 5.3% to €70.5m (2008: €74.4m). Excluding the benefit of the once-off releases made in 2008 due to the termination of onerous contracts, maintenance costs per flight hour decreased by 7.0%, which represents the savings achieved due to the new, more cost effective contracts agreed.

Other gains/losses – net, which largely consist of gains from maturing currency contracts used to hedge the Group against adverse movements in the US dollar, which are reflected in other income statement captions, returned a net gain of €24.2m for 2009 versus a net gain of €8.8m for 2008.

Net exceptional items

Net exceptional items reflect the charges for the Cost Reduction Programme in 2009 and the Early Retirement, Voluntary Severance and Migration Schemes in 2008. The 2009 charge consists of provisions for net redundancy payments of €51.9m and for a deferred payment to staff of €25m both related to the 2009 Cost Reduction Programme and a remeasurement of the 2008 restructuring provision resulting in a charge of €11.7m. The deferred payment will be paid out over time commencing when the Group returns to profitability.

Employee profit share

There is no provision for an employee profit share for 2009 (2008: nil) as a result of the losses incurred in the period.

Financing income and expense

Net finance income decreased by 61.9% on 2008 to €14.8m (2008: €38.8m). Finance expense for 2009 increased slightly over 2008, however, finance income fell by 39.4% due to falling interest rates and a decrease in the Group's gross cash balance.



Tax charge

There was a tax credit for the year of €24.8m (2008: €12.2m) arising from an increase in deferred tax assets due to losses incurred during the year and the remeasurement of existing corporation tax provisions.

Cash flow, cash and debt

Gross cash (loans and receivables, deposits and cash and cash equivalents) decreased by 31.3% during the year, to €828.5m (31 December 2008: €1,206.8m).

During the year the Group made payments totalling €158.8m for the delivery of two A330 aircraft and deposits for future aircraft deliveries. The Group obtained new lease financing of €55.7m. The Group made redundancy payments of €124.2m during the year. Finance lease debt at 31 December 2009 was €492.6m (31 December 2008: €552.9m).

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 27 April 2010, our estimated fuel requirements for the remainder of 2010 and for 2011 were hedged as follows:

	Remainder of 2010	Full year 2011
% hedged	77%	31%
Average price per tonne	\$762	\$779

Our major foreign currency exposure is to the US dollar. At 31 December 2009, our forward purchases of US dollars comprised 72% of the estimated trading requirements for 2010 at an average rate of €1=\$1.48.

Principal risks and uncertainties

The Group is required to give a description of the principal risks and uncertainties which it faces. Risk management is a key part of the Group's business process. A corporate risk assessment is undertaken on an ongoing basis and it is reviewed by the Risk Committee of the Board. The risk assessment process is a key tool in identifying and managing business risk. A corporate risk register is maintained and workshops are attended by management and executives representing the operational, commercial and finance functions in the business.

The principal risks and uncertainties for the Group are set out below:

- **Economy:** The continuing recession in the Group's primary markets, in particular the Group's core Irish market, has negatively impacted and may continue to negatively impact the Group's business.



Aer Lingus and United Airlines Join Forces

(Left to right) Pictured at the launch of the airlines' codeshare agreement: Aer Lingus Chief Commercial Officer Stephen Kavanagh alongside United Airlines MD for Europe, Marcel Fuchs, with Aer Lingus cabin crew Sinead Carroll and United Airlines Flight Attendant Kathleen Byrne.

- **Fuel:** Volatility in fuel prices could have a material impact on the Group's operating results.
- **Closure of airspace:** A sustained closure of airspace of the type experienced in April 2010 (as a result of the volcanic eruption in Iceland) could have a significant financial impact on the Group in terms of lost revenue and the costs of passenger disruption.
- **Change Management:** The Group has commenced the implementation of a cost reduction programme, which is targeting specific annualised cost savings. If the Group fails to successfully implement the cost reduction programme there is a risk that the Group will have an uncompetitive cost structure.
- **Taxes and Charges:** The maintenance of the €10 air travel tax introduced by the Irish Government in 2009 and the increasing charges being imposed by the Dublin Airport Authority could lead to a reduction in fare yield and/or negatively impact the Group's financial performance.
- **People:** The Group's future performance is dependent upon a strong and effective management team. If the Group fails to attract or retain suitably qualified employees, this could negatively impact business performance.
- **Information Technology:** The Group has commenced a project to further modernise its information technology support systems. If the Group fails to successfully implement the project, the quality of the Group's management information could be impacted, which in turn could impact upon revenue generation and financial performance.
- **Competition:** The Group faces strong competition in the markets in which it operates and if the Group fails to respond to that competition, market share and financial performance could be impacted.
- **Strategy:** If the Group's long term strategy is unsuccessful it may negatively impact to Group's financial performance.
- **Safety:** Failure to operate safely or to adequately respond to an emergency safety incident could adversely impact the Group's operations and financial performance.

The Group has a comprehensive system of risk management and internal controls which is intended to address and mitigate such risks and uncertainties.

Board of Directors



Left to right: Colm Barrington, Christoph Mueller, David Begg, Montie Brewer, Leslie Buckley, Thomas Corcoran, Laurence Crowley.

Colm Barrington (Chairman) (7) (8) (9)

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 Babcock and Brown Air 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. Prior to his appointment he was most recently the Aviation Director at TUI Travel plc, a leading international leisure travel group operating a pan-European airline with over 160 aircraft. 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, Mr Mueller 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. Mr Mueller 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.

David Begg (8) (10) (12)

David Begg was appointed to the Board on 29 January 2008. Mr Begg became General Secretary of the Irish Congress of Trade Unions in 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 Director of the Central Bank (since 1995), a Governor of the Irish Times Trust, member of the ESRI Council, a member of the National Economic and Social Council (NESCC), and of the Advisory Board of Development Co-operation Ireland. He also sits on the Executive Committee of the European Trade Union Confederation (ETUC).

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 (11)

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, Mr Buckley 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. Mr Buckley 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 Mr Buckley 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 Mr Buckley was appointed to the Board of Independent News & Media PLC.

Thomas Corcoran (7) (10)

Thomas Corcoran was appointed to the Board on 4 May 2007. Mr Corcoran 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. Mr Corcoran 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 (4) (6)

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, Ecochem 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



Left to right: Ivor Fitzpatrick, Danuta Gray, Francis Hackett, Colin Hunt, Michael Johns, Thomas Moran, Nicola Shaw.

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.

Ivor Fitzpatrick (1) (7)

Ivor Fitzpatrick was appointed to the Board on 5 June 2002. He is a solicitor and the founding partner of Ivor Fitzpatrick & Co Solicitors. Mr Fitzpatrick practices and has extensive experience in the legal profession and is also involved in various commercial and business activities.

Danuta Gray (2) (6)

Danuta Gray was appointed to the Board on 25 August 2006. Ms Gray is Chief Executive of O2 Ireland, a position she has held since 2001. Ms Gray 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 (3) (11)

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

Colin Hunt (5) (9) (11)

Dr Colin Hunt was appointed to the Board on 31 January 2008. Dr Hunt is Division 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.

Michael Johns (9) (10) (12)

Michael Johns was appointed to the Board on 25 August 2006. He is a solicitor and has been a partner at Ashurst, solicitors since 1987. He retires from Ashurst at the end of April 2010. Mr Johns is a graduate of Oxford University. He has extensive experience in the areas of commercial, corporate, corporate finance and energy law. He has provided legal counsel to the Eircom employee share ownership trust since 2001.

Thomas Moran (9) (10)

Thomas Moran was appointed to the Board on 25 August 2006. Mr Moran 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. Mr Moran 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. She is 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.

(1) Chairman of Audit Committee

(2) Chairman of Remuneration Committee

(3) Chairman of Safety Committee

(4) Chairman of Appointments Committee

(5) Chairman of Risk Committee

(6) Member of Audit Committee

(7) Member of Remuneration Committee

(8) Member of Safety Committee

(9) Member of Appointments Committee

(10) Member of Risk Committee

(11) Nominated for appointment by Minister for Transport of Ireland

(12) Nominated for appointment by ESOT

Executive Management Team



(Left to right): Stephen Kavanagh, Chief Commercial Officer, Michael Grealy, Director of Human Resources and Organisational Change, Christoph Mueller, Chief Executive Officer, Andrew Macfarlane, Interim Chief Financial Officer, Fergus Wilson, Chief Engineer, Enda Corneille, Director of Shared Services.

Christoph Mueller

Chief Executive Officer

See Board of Directors on page 10.

Michael Grealy

Director of Human Resources and Organisational Change

Michael Grealy is a graduate of Trinity College Dublin. Mr Grealy joined Aer Lingus as Director of Human Resources and Organisational Change on 28 September 2009. He was formerly Head of Group Human Resources and a member of the Group Executive Committee of The Bank of Ireland. He has extensive experience at a senior level in human resources within major industries in Ireland, France and the US. Immediately prior to joining Aer Lingus, Michael was Chief Executive, Alternative Investments and Global Distribution with The Bank of Ireland. Mr Grealy has also held senior Human Resources positions in Boston Scientific and Seagate Technology.

Andrew Macfarlane

Interim Chief Financial Officer

Andrew Macfarlane is a Fellow of the Institute of Chartered Accountants and holds an MA in Economics from Selwyn College, Cambridge. Mr Macfarlane 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.

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.

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.

Fergus Wilson

Chief Engineer

Fergus Wilson completed his apprenticeship with Aer Lingus in 1982 after which he was employed as a licensed Avionic Engineer. Subsequently he held supervisory positions in Line Maintenance and was appointed Line Maintenance Manager and Base Maintenance Manager. He joined the senior management team in 2002 in the position of Acting Chief Engineer and was subsequently appointed as Deputy Chief Engineer. In 2006 he was appointed Chief Engineer and Nominated Post Holder for Continuing Airworthiness and Maintenance. In 2010 he joined the executive management team assisting the Chief Executive Officer with operational duties. Fergus graduated with an MBA from the Open University Business School in 2001.

Corporate Social Responsibility Statement

Environment

Climate change is a global issue and is the primary environmental challenge of this century. Increased levels of greenhouse gases such as carbon dioxide act to enhance the natural greenhouse effect and accelerate irreversible changes in the climate. 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 2009, fuel costs represented 26% 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 CO₂ 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 Aer Lingus is to balance the needs of the business with the need to improve environmental performance.

Airlines are heavily regulated and subject to audit in certain jurisdictions in relation to environmental matters. Aer Lingus has been, and intends to continue to be, fully compliant with all applicable regulations. Aer Lingus also takes every opportunity to drive cost efficiencies across the network and to prevent pollution. To this end, Aer Lingus is a member of the Airport Environmental Committee at our home base in Dublin Airport.

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 available passenger kilometre reducing by 52% since 1991. This in turn reduces the emissions per available passenger kilometer.

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.

The Minister for the Environment, Heritage & Local Government issued the European Communities (Greenhouse Gas Emissions Trading) (Aviation) Regulations 2009 in July 2009, which transposed key features of the Aviation Directive into National Legislation.

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 its greenhouse gas emissions over a given year. At the end of that year, Aer Lingus must have enough CO₂ allowances (credits) for the fuel burned on flights to, from and within EU countries in the year.

Aer Lingus has three sources of allowances to account for its carbon emitted: free allocation allowances, allowances purchased on the open market and carbon offset credits.



On 27 May 1936, a six-seat De Havilland 84 Dragon biplane, EI-ABI named 'Iolar', Irish for 'Eagle', inaugurates the airline's first scheduled service from Dublin's Baldonnel airfield to Bristol.

If actual emissions are anticipated to exceed its allowances, Aer Lingus must either buy additional emissions allowances if available in the market, or reduce 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 target 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.

We take our environmental responsibilities very seriously and are committed to playing our part in combating climate change. We continue our efforts to limit the environmental impact of aviation by investing in new technology and by improving operational procedures. Specific areas that have been addressed are outlined on the following pages.

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.

The Group is reducing the climate change impact of its fleet through investments in modern aircraft and through operational measures to minimise fuel consumption. Aer Lingus' fleet investment strategy aims to maintain a young, modern fleet with significant emphasis on low fuel consumption, high reliability and high aircraft utilisation. Aer Lingus operates a modern fleet with aircraft and engines which use the latest technologies and contain many advanced environmental and fuel conservation properties (e.g. winglets, minimised drag, quiet and fuel efficient engines), resulting in reduced fuel burn and noise levels.



Monday 18 January 2010: UNICEF Ireland Ambassador, Ryan Tubridy became one of the first people to donate to the special Aer Lingus 'Change for Good' collection for the children of Haiti. Ryan is photographed with Dublin based cabin crew members Marie Walsh (left) and Ciara Power (right).



Daffodil Day – pictured: Jim O'Malley, Corporate Partnerships Manager of the Irish Cancer Society and Aer Lingus cabin crew.

Aer Lingus currently operates a single aircraft type in its short haul fleet, the Airbus A320/A321 family, with an average age of just 5.6 years as at December 2009. Aer Lingus took delivery of three new A320 aircraft in 2009.

On Long Haul Aer Lingus operates the Airbus A330. The average age of the fleet at December 2009 was 7.2 years. The Group took delivery of two new A330-300s in 2009. Three older A330s (two 1994 vintage and one 2000 vintage) were removed from service and returned to their Lessors. Additionally in early 2010 an A330, of 1994 vintage, was returned to its Lessor and one new A330 was delivered in April 2010. Aer Lingus has an order for three A330 aircraft for delivery in 2013/2014 with the potential to convert to A350 aircraft for delivery at a later date agreed with Airbus. In addition, Aer Lingus has an order for A350 XWBs, the next generation of wide-body aircraft, due to be delivered in 2015/2016.

Reductions in fuel burn/emissions and environmental performance were key elements taken into account in the evaluation and procurement decisions. These new aircraft and the newer engine technologies that go with them will further improve Aer Lingus' overall fuel efficiency and environmental impact.

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.

During 2009 the Airline reviewed routes to ensure that optimum routes are being flown and also reduced the speed of the aircraft to save fuel and thus reduce emissions.



Aer Lingus flies the Irish Soccer Team to Bari, Italy for the World Cup Qualifying Campaign in April 2009.

Aer Lingus is subject to specific regulations in relation to local emissions of nitrogen oxides. All airports monitor the impact of airlines on local air quality. Aer Lingus is fully compliant with these regulations on nitrogen oxides and local air quality, and our modern fleet contributes to efficiencies in these emissions.

We continued to have 30% of our ground equipment using electric power, which helps reduce our ground emissions. Where operations allow, consideration is given to the use of electric power rather than power which generates emissions.

There has been a significant reduction in average specific fuel consumption over the past two decades – a drop of 52% since 1991.

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 was presented with the top award for Best Overall Performance and the award for Best UK and Eire Airline at the Manchester Airport Skyliners' Awards presentation, held in March 2009. These prestigious awards are presented by the airport to airlines that have consistently observed the preferred flight paths during take-off, helping to reduce noise for residents living close to the airport. These awards



Belfast Giants – pictured: (L-R) Belfast Giant, Craig Peacock, General Manager of the Giants, Todd Kelman, Aer Lingus cabin crew member, Lauren McGarrigle, Aer Lingus Corporate Affairs Director, Enda Corneille, and Belfast Giant, Nathan Craze.



recognise our commitment to the environment and in particular, the area of noise pollution. In a field that included a number of world-class carriers, these accolades re-enforce Aer Lingus' position as the original green airline. The awards were introduced eight years ago to recognise and reward airlines that fly at least 95% of their departures within tightly defined 'tracks' known as preferred noise routes. Manchester remains the only airport to present these types of awards and is seen as innovative in its approach to the environment for doing so.

In addition, Aer Lingus received a major award at the Operation Pathfinder Award Ceremony in April 2010. Aer Lingus will be 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.

The volume of waste being currently sent to landfill is unsustainable for our environment and one major contributor is office waste. Aer Lingus is committed to the practice of successful waste reduction/management strategies, which will achieve both financial and environmental benefits. Initiatives currently undertaken to reduce waste include the reuse and recycling of materials, which should lead to improving environmental sustainability and increasing cost savings, particularly with office paper recycling. We continued to support our office waste reduction programme in 2009.

The aim of this programme is to reduce our environmental impact through careful selection and use of office equipment and products. We aim to increase the sustainability of the modern day office, through the reduction of resource use while still meeting performance requirements. We encourage all staff members to actively participate in a number of initiatives including the reduction of paper waste, toner cartridges, cardboard, plastic and other resources. At Aer Lingus we acknowledge that choosing and operating the right piece of office equipment will not only help protect the environment, but will often save us money through reduced operating costs.

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.

Health, Safety and Security Organisation

Aer Lingus maintains the highest standards in air safety through the commitment of management and staff to place air safety as their foremost priority. Air safety is a core value of Aer Lingus and is managed pro-actively in accordance with the Safety Management System (SMS) described in the Group’s Air Safety Manual.

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 overall responsibility for the internal offices of Air Safety, Health and Safety and Quality Assurance.

The Aer Lingus SMS comprises a systematic, corporate approach to the management of safety that puts in place the necessary organisational structure, accountability, policies and procedures. In 2009, Aer Lingus reinforced its commitment to air safety through the investment of significant further resources in its Air Safety Office. Aer Lingus is required to operate an SMS that complies with international standards, and to this end, under the leadership of the Safety Manager, a team of subject matter experts and specialists have been recruited into the Group’s Air Safety Office to manage and promote air safety within Aer Lingus. An operational aircraft engineer has been appointed as Technical Safety Officer.

Pictured: Captain Davina Pratt, Chief Pilot/Head of Flight Operations, Aer Lingus is awarded Best Overall Performance and the award for Best UK and Éire airline at the Manchester Airport Skyliners' Awards.



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. During 2009 Aer Lingus introduced enhancements to its air safety reporting systems as part of an ongoing strategy to maintain industry-leading processes in safety management.

In 2009 Aer Lingus received confirmation of its successful compliance with its IATA Operational Safety Audit (IOSA). 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.

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.

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, as updated by General Applications Regulations 2007 and with all relevant safety regulations.

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

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 34 for further details.



Aer Lingus School's Art Competition prize winner Aoife Harvey pictured with her winning design and her classmates from St Colmcilles Primary School, Claudy.

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 IATA, the IAA Safety Management Working Group, the United Kingdom Flight Safety Committee, the Flight Safety Foundation, the Runway Safety Committee 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.

Health and Safety

There is a well established Health and Safety Office, which focuses on workplace safety, health and welfare. This office co-ordinates the implementation of health and safety policy throughout Aer Lingus. The office also develops Group policy. The Health and Safety Office focuses on accident prevention via a hazard and risk assessment programme, runs a continuous programme of health and safety training in consultation with line departments, advises departments on development of health and safety and manages incident reporting and 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 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; the 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 representative's 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.



School's Art Competition – pictured: St Colmcille's Primary School P6 class along with teacher, Mrs Logue, Aer Lingus cabin crew member, June Courtenage and Aer Lingus Business Development Manager, Andrea Hunter.

Pictured at the departure of the special Aer Lingus GOAL Relief flight to Haiti at Dublin Airport, Friday 22 January, were from left:

David El Masri, Aircraft Loader, Declan Kearney, Head of Customer Service, Helen Hempenstall, Cabin Crew, John O'Shea, Chief Executive of GOAL and Alison Moran, Cabin Crew.

The Airbus A330 aircraft, St Ronan, flew directly from Dublin to La Romana airport in the Dominican Republic to deliver over 25 tonnes of much needed emergency medical and food supplies to earthquake survivors in Haiti. The flights also carried 15 doctors and volunteers to Haiti. Aer Lingus employees volunteered their time to organise the special flight which was in co-operation with the Irish aid agency GOAL.

Quality Assurance

The Quality Management System includes both technical and operational activities. It performs the oversight and audit function of Aer Lingus and contracted organisations in order to comply with the requirements of EASA (European Aviation Safety Agency) and JAR (Joint Aviation Regulations).

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 and handling agents 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.

Security forms part of the IOSA programme and again in 2009 Aer Lingus received confirmation of its successful compliance with its IATA Operational Safety Audit (IOSA).

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



Aer Lingus sponsors the Deep RiverRock Belfast City Marathon 2009 – pictured, the Aer Lingus Marathon Team.



Pictured at Dublin Airport: Aer Lingus customer service staff send Dustin the Turkey on his way to South Africa on a week-long fact finding mission for UNICEF Ireland.

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.

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 2009 over 30 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 2009 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 cost reduction programme 'Greenfield'. 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.

Profit Share, Share Ownership and Pension Schemes

Employees participate in pensions schemes and profit share/share ownership schemes, the values of which are linked to the financial performance of the Group.

Charity, Community and Customers

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.

Aer Lingus are proud sponsors of the Belfast Giants for the 2009/2010 ice hockey season. The airline has supported the team by flying many of the players from North America to Ireland for their tenth season. In conjunction with the sponsorship deal, the airline launched the GIANT Schools' Art Competition, inviting Primary Six classes across Northern Ireland to design a mascot to represent Aer Lingus on the ice. The winning mascot was unveiled at the final home game of the Elite league, joining the Belfast Giant's mascot, 'Gordie the Gorilla', on the ice.

Aer Lingus for the second year has partnered with Belfast City Marathon, as a gold sponsor, for the 2010 Marathon. In its 29th year, the event has gone from strength to strength, attracting many athletes from around the world. The airline hopes to welcome many of the participants and spectators on board who will travel to the event in May 2010.

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.

In Ireland, Aer Lingus has been the proud supporter of the programme since 1997. Thanks to the generous support of Aer Lingus passengers, management and staff, Change for Good™ has generated over €7.5 million that UNICEF has used to provide a healthier, happier future for millions of children. In 2009, €780,699 was raised on board Aer Lingus flights.

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 leftover notes and coins 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.

Following the heavy flooding in Ireland in December 2009, Aer Lingus cabin crew facilitated special collections on board short-haul flights, raising a total of €53,113. The monies collected were donated to UNICEF Ireland's Flood Fund to re-build the Paediatric Section of the Accident and Emergency Unit and the Children's Play Room in the Mercy Hospital, Cork which were completely destroyed in the floods.

In January 2010, the Caribbean island of Haiti was devastated by a severe earthquake, which resulted in widespread destruction leaving thousands dead and many more without food or shelter. 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.

In addition, Aer Lingus flew an A330 aircraft directly from Dublin to La Romana airport in the Dominican Republic to deliver much-needed emergency medical and food supplies to earthquake survivors in Haiti. The mission, which was implemented in co-operation with the Irish aid agency GOAL, also brought 15 doctors and volunteers to Haiti and carried over 25 tonnes of aid. Arrangements were made with GOAL representatives in Haiti to ensure that, once unloaded, the supplies got to those who needed them as quickly as possible.

It was a significant achievement for Aer Lingus to organise the special flight at such short notice, and to be able to mobilise teams in operations, cargo, planning, flight operations and cabin crew, to make the mission a reality. In addition to crew and operations employees volunteering their time, all airport and navigational charges were waived by both the Dublin Airport Authority and the Irish Aviation Authority. Aer Lingus wish to sincerely thank the relevant organisations for their co-operation, together with all Aer Lingus staff.

Ulster Grand Prix

For the third consecutive year Aer Lingus is proud to sponsor the Ulster Grand Prix race, which takes place in August. The event has been part of Northern Irish culture for the last 85 years. This hugely popular sporting event sees spectators travel from all over the globe from as far afield as Australia, Spain, France and Italy.

Special Olympics Ireland

Aer Lingus is delighted to continue its support of Special Olympics Ireland. The airline supported Team Ireland travelling to the 2009 Special Olympics Winter Games, which were held in Boise, Idaho, USA.

Daffodil Day

For the second year Aer Lingus has offered its support to The Irish Cancer Society for their Daffodil Day campaign. Aer Lingus cabin crew supported the appeal with on board collections, which amounted to over €21,700. The funds raised will go towards the Irish Cancer Society's National Night Nursing program, which to date has helped 1,800 families, and provided over 7,000 nights of care. Donations also funded the Irish Cancer Society information services which assist over 20,000 people in Ireland each year.

Customers

The Group's website, www.aerlingus.com, gives the Group the opportunity to communicate directly with customers and to provide customers with all the information that they need to make it easier to book their flights and to travel. In 2009, 83% of all bookings were made through www.aerlingus.com. Services offered on the website, which are available in eight different languages, include timetables, car hire, hotel accommodation, travel insurance, sky shopping, advance check-in and seat selection, pre-payment of baggage charges, booking changes, passport and visa information, collection of advance passenger information required by the US authorities, investor relations, real-time arrival and departure times and in-flight health and comfort advice. Customers can also sign-up to receive regular emails with special offers.

During 2009 Aer Lingus introduced the Group Booking facility. Customers can now book a group of up to 25 people online at one time even during Seat Sales or when we have Discount Sales meaning they can save time and money. To provide even greater flexibility, seats can be booked without having all confirmed names – customers just book the number of seats they need and then confirm all names within 7 days – giving them the chance to check everyone's name as it appears on their passport.

We also provide the opportunity for passengers to upgrade all/part of their journey to business class on transatlantic (or Flexi Fare on all routes). Allowing passengers the flexibility to upgrade all/ both parts gives them the control and ability to decide whether they want to return early or indeed want to avail of the extra comfort of business class to ensure they arrive thoroughly rested at their destination.

We now also offer the option, on selected routes, to purchase Lounge Access in the booking flow. This is part of our continued commitment to offering customer benefit at their discretion.

During 2009 Aer Lingus completed an A330 retrofit programme where new seats, and a new in-flight entertainment system (IFE), were installed in most of our long-haul aircraft. Currently 7 out of 9 aircraft are operating in the new layout – two older A330s are not being retrofitted, as they are due to leave the fleet in the coming months. We have made a significant investment in upgrading our business class product on long haul routes. It is important that we continue



*Aer Lingus gift vouchers are available for sale at aerlingus.com.
The perfect gift idea – vouchers can be purchased in Euro,
Sterling or Dollars and can be redeemed on aerlingus.com.*



Aer Lingus have partnered with the 'One4all Bikes4work' scheme, a government tax break designed to get employees to cycle to work.



"Cara", our award winning in-flight magazine is now available to view in digital format on aerlingus.com.

To read [cara online](http://caraonline.aerlingus.com) visit aerlingus.com

to focus on the customer, as the physical product is only part of the experience – the service provided by our frontline staff being the other critical element. This is a significant investment in our business class product and is in response to customer and staff feedback, in addition to benchmarking against other airlines. It also places Aer Lingus in an advantageous position when compared to our direct competitors to and from Ireland.

Aer Lingus also distributes, free of charge on all flights to the UK, Europe and USA, its award winning in-flight magazine, Cara. Cara was awarded for its polished, smart image whilst meeting Aer Lingus customer needs. From 2009 our 'Cara' magazine is available in digital format, with the December/January edition online and accessible from aerlingus.com and from the homepage of the intranet. Using the latest in Flash technology, Cara will now not only be available to all our customers onboard our flights, but to everyone that visits the

aerlingus.com website. With Cara in digital format, customers can now read about our destinations and enjoy the award winning editorials and original photography that Cara is renowned for, all from the convenience of their own PC or laptop.

Aer Lingus operates a frequent flyer programme, the "Gold Circle Club". It entitles members to earn and spend frequent flyer points on Aer Lingus flights and partner member airline flights. Members can also use their points to purchase a range of quality gifts provided by our program partners. When travelling on Aer Lingus flights, Gold Circle Club members can access Gold Circle Lounges at most airports served by Aer Lingus. The Gold Circle Club has three tiers. Members of the top two tiers qualify to use partner airline airport lounges.

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 2009

Introduction

The Directors present their report to shareholders, together with the financial statements of Aer Lingus Group plc and the Independent Auditors' report thereon, for the year ended 31 December 2009.

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 report on developments during the year, on the state of affairs at 31 December 2009, on events since 31 December 2009, 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 9. The financial statements for the year ended 31 December 2009 are set out in detail on pages 45 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 3, the Chief Executive Officer's Review on pages 4 to 5 and in the Operating and Financial Review on pages 6 to 9.

Results for the year and state of affairs as at 31 December 2009

The consolidated income statement for the year ended 31 December 2009 and the consolidated statement of financial position at that date are set out on pages 45 and 47 respectively. The loss for the year after tax amounted to €130.1m (2008: loss of €109.9m).

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

	€m
Balance, 31 December 2008	(51.2)
Loss for the year	(130.1)
Loss on cancellation of treasury shares	(7.0)
Balance, 31 December 2009	(188.3)

Total equity decreased by €58.0m during the year as a result of the loss for the year €130.1m, a loss on the cancellation of treasury shares of €7.0m and an increase in other reserves of €79.1m. No further transfers to or from reserves are proposed by the Directors.

Substantial interests in share capital

As at 27 April 2010, the Directors are aware of the following substantial interests in the share capital of the Company, which represent more than 3% of the issued share capital.

	Share held	% of issued share capital
Ryanair Limited	159,231,025	29.82%
Minister for Finance of Ireland	134,109,026	25.11%
Aer Lingus ESOP Trustee Limited	66,577,980	12.47%

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.

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 52 to 63.

Dividends

The Directors do not propose the payment of dividends in respect of the year ended 31 December 2009.

Principal risks and uncertainties

Information on the principal risks and uncertainties facing the Group are detailed in the Operating and Financial Review on pages 8 to 9. The Financial Risk Management policies in place to address these are set out in Note 3 to the consolidated financial statements.

Directors and Secretary

The names of the current Directors appear on pages 10 to 11, together with a short biographical note on each Director. The Directors who served during the year are listed below:

Colm Barrington
David Begg
Leslie Buckley
Thomas Corcoran
Sean Coyle
Laurence Crowley
Ivor Fitzpatrick
Danuta Gray
Francis Hackett
Colin Hunt
Michael Johns
Dermot Mannion
Anne Mills
Thomas Moran
Christoph Mueller
Chris Wall

Mr Laurence Crowley was appointed to the Board on 9 January 2009.

Mr Chris Wall ceased to be a Director on 5 March 2009 when the Company was informed by the Minister for Transport of Ireland that Mr Chris Wall's appointment as a "Minister's Nominee" had expired.

Mr Leslie Buckley was nominated for appointment to the Board by the Minister for Transport, and was appointed as a non-executive director on 18 May 2009. Mr Buckley is designated a "Minister's Nominee" in accordance with the Company's Articles of Association.

Mr Christoph Mueller was appointed to the Board on 14 September 2009 and will be put forward for election at the forthcoming Annual General Meeting.

Mr Ivor Fitzpatrick and Ms Anne Mills were both re-elected at the Company's Annual General Meeting during the year. On 21 March 2010 Ms Anne Mills retired upon the expiry of her term of office as a director.

Mr Colm Barrington, Mr Laurence Crowley and Mr Sean Coyle were each elected at the Company's Annual General Meeting during the year.

Mr Dermot Mannion resigned from the Board on 6 April 2009. Mr Sean Coyle resigned from the Board on 31 December 2009.

Mr Tom Corcoran and Mr Tom Moran will retire by rotation as directors in accordance with the Articles of Association at the forthcoming Annual General Meeting and following rigorous 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 2009 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 2009, the Company Secretary was granted a conditional award of 70,403 shares under the LTIP in respect of the vesting period 1 January 2009 to 31 December 2011. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP.

Since the year-end Mr Montie Brewer and Ms Nicola Shaw have been appointed as directors and will be put forward for election at the forthcoming Annual General Meeting.

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.

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. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Report [continued]

Directors' statement pursuant to the Transparency

Regulation

Each of the Directors, whose names and functions are listed on pages 10 to 11 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 loss 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.

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 29 to 36.

Issue and purchase of own shares

The Company received authority from shareholders at its last Annual General Meeting on 5 June 2009 to allot relevant securities up to a nominal value of €8,810,249 and purchase up to 10% of its own shares. Both these authorities are due to expire at the Company's forthcoming Annual General Meeting on 18 June 2010.

On 2 September 2009 the Company acquired 5,605,347 ordinary shares (representing 1% of the called up share capital of the Company) of €0.05 each in the issued share capital of the Company for nil consideration from ALG Trustee Limited, pursuant to section 41(2) of the Companies (Amendment) Act, 1983 and these 5,605,347 shares were then cancelled in accordance with section 43 of the Companies (Amendment) Act, 1983. ALG Trustee Limited is the trustee of the Aer Lingus Group plc Employee Benefit Trust and in that capacity, it holds Aer Lingus shares for the purposes of the Company's 2007 Long-Term Incentive Plan. The Shares were acquired and cancelled by the Company as the Company does not expect that the shares, which were acquired and cancelled, will be required to satisfy vestings pursuant to the LTIP.

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 will be held by EU shareholders.

Political contributions

The Group made no political donations 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 9, which includes 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 72
- Details of derivative financial instruments on pages 76 to 77
- Details of key performance indicators relating to employee matters, e.g. change in number of employees, on page 71.

Events after the reporting date

In October 2009, the Group launched its Cost Reduction Programme (“Greenfield”), which targeted annualised cost savings of approximately €97m over the period to 2012. On 5 March 2010, the Group was notified that the Greenfield proposals were rejected in a staff ballot of cabin crew represented by IMPACT. The Group was separately notified that the four other staff ballots conducted by Pilots (IALPA), Middle Management (IAESA), SIPTU (Ground Operations/Support areas/certain cabin crew) and Maintenance Staff (Craft Union) had supported the Greenfield proposals. On 9 March 2010, the Group announced that it would immediately commence the implementation of those elements of the Greenfield programme that were agreed with the four union groups that supported the proposals. On 26 March 2010 the Group was notified that the Greenfield proposals were supported in a re-ballot of cabin crew staff represented by IMPACT. The Group then commenced the implementation of the Greenfield programme with cabin crew staff.

In April 2010, a volcanic eruption in Iceland caused severe disruption to European air traffic and caused the cancellation of more than 1,500 Aer Lingus flights. The current estimate of the impact on the Group's profits is approximately €20 million but the long-term impact on customer confidence is unclear.

In April 2010, the Group entered into a finance lease arrangement for the purchase of an Airbus A330 aircraft, resulting in an increase in finance lease obligations of €58.5m.

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 2009

The Report of the Remuneration Committee on Directors' Remuneration is set out on pages 38 to 42. The Directors' Corporate Social Responsibility Statement is set out on pages 13 to 25.

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. This statement describes 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. A copy of the Combined Code can be obtained from the Financial Reporting Council's website, www.frc.org.uk.

Statement of compliance

Except as disclosed below, the Directors consider that the Company has complied with all relevant provisions of the 2008 FRC Combined Code throughout the year and the Company intends to continue doing so in the future.

- **Rotation of directors:** The Minister for Transport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) and the ESOT each have specific rights under the Company's Articles of Association in relation to the nomination and rotation of 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.
- **Composition of the Board and independence:** As part of the arrangements entered into by the Minister for Finance of Ireland in 2003 in respect of the Company and as part of the arrangements put in place immediately prior to the flotation of the Company in 2006, it was provided in the Company's Articles of Association that the Minister for Transport of Ireland would be entitled to nominate for appointment up to three Directors on the basis set out in the Initial Public Offering Prospectus and that the ESOT would be entitled to nominate for appointment up to two Directors on the basis set out in the Initial Public Offering Prospectus. At times during 2009, at least half the Board, excluding the Chairman did not comprise non-executive Directors determined by the Board to be independent. Under the Company's Articles of Association, the maximum number of Directors is set at fifteen. Throughout most of 2009 a total of five Directors were nominated by either the Minister for Transport of Ireland or by the ESOT (these five Directors represent the full nomination entitlement of three and two Directors, respectively of these two shareholders). These five non-executive Directors were not considered independent. Similarly, throughout much of 2009, there were two executive Directors on the Board (the Chief Executive and the Chief Financial Officer) neither of whom is considered independent. Therefore seven Directors out of a possible maximum of fifteen were not considered independent. Accordingly, as the independent non-executive Chairman is excluded from the calculation, a single appointment to or resignation from the Board can cause non-compliance with this particular requirement under the Combined Code. The Company was in full compliance with this Combined Code requirement in the period from 6 March 2009 to 13 September 2009. Due to changes in Board composition on 31 December 2009 and since the year end, as at 28 April 2010 the Company is in full compliance with this Combined Code requirement. It is the Company's intention to continue to review the composition of the Board to endeavour to continue to comply with this requirement.

Directors' Report [continued]

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.

Other matters reserved to the Board include treasury policy; internal control, audit and risk management; 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 currently comprises fourteen Directors – one executive (Christoph Mueller, Chief Executive Officer) and thirteen non-executive (including the Chairman). Biographies of current Directors are set out on pages 10 and 11.

During 2009, of the non-executive Directors, Mr Thomas Corcoran, Mr Laurence Crowley, Mr Ivor Fitzpatrick, Ms Danuta Gray, Ms Anne Mills and Mr Thomas Moran were considered to be independent by the Board. Following changes in the composition of the Board, at times during 2009, at least half the Board, excluding the Chairman did not comprise 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, Mr Ivor Fitzpatrick, 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 Combined Code requirement.

The Board considers that between them the Directors bring the range of skills, knowledge and experience necessary to lead the Group.

Chairman

Mr Colm Barrington was appointed as Chairman on 3 October 2008. 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 2009, the roles of Chairman and Chief Executive were independent of each other. Mr Barrington assumed executive responsibility for an interim period in 2009 following the resignation of the previous Chief Executive and until the appointment of Mr Christoph Mueller as Chief Executive.

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. Mr Barrington 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) from 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 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. Recommendations to shareholders for the re-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 compensation upon termination.

The Minister for Transport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) and the ESOT each have specific rights under the Company's Articles of Association in relation to the nomination and rotation of 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. The Minister for Transport of Ireland is entitled to nominate for appointment up to three Directors. The ESOT is entitled to nominate for appointment up to two Directors. The number of Directors eligible to be nominated by the Minister for Transport of Ireland and the ESOT is dependent on the proportion of the total issued ordinary share capital held by each of them respectively. Up to 5 March 2009, the Minister for Transport of Ireland nominated his full entitlement of three Directors (Mr Francis Hackett, Dr Colin Hunt and Mr Chris Wall). Mr Chris Wall ceased to be a Director on 5 March 2009 following the expiry of his appointment as a "Minister's Nominee". Mr Leslie Buckley was appointed as a "Minister's Nominee" on 18 May 2009 and throughout the remainder of the year there were three such "Minister's Nominees" (Mr Leslie Buckley, Mr Francis Hackett and Dr Colin Hunt).

During 2009 the ESOT nominated its full entitlement of two Directors (Mr David Begg and Mr Michael Johns) (the "ESOT Nominees"). Further information is given in the biographies of current Directors on pages 10 and 11 of the skills and experience of the Minister's Nominees and the ESOT 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. All Directors, with the exception of those nominated by the Minister for Transport of Ireland (acting through the Minister for Finance of Ireland) or by the ESOT, are required to retire by rotation every three years. All retiring Directors may offer themselves for re-election. Directors nominated by the Minister for Transport of Ireland or ESOT 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 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 provided with extensive briefing materials on the Company and its operations. An induction process is clearly established and has been set out in writing and approved by Board.

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 indemnifies 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 nine scheduled Board meetings in the year. In addition there were four unscheduled meetings and six conference call meetings. Therefore, there were a total of nineteen Board Meetings held in 2009. Details of Directors' attendance at these meetings is outlined in the table on page 35. 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 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.

Directors' Report [continued]

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. In 2009 an annual evaluation of the Board's performance was conducted with the assistance of external consultants.

Remuneration

Details of remuneration paid to Directors is set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 38 to 42.

Share ownership and dealing

Details of the shares held by Directors are set out in Table 2.3 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 at 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 three non-executive Directors considered by the Board to be independent. In 2009 the Audit Committee consisted of Mr Ivor Fitzpatrick (Chairman), Mr Laurence Crowley and Ms Danuta Gray. Mr Laurence Crowley is a Chartered Accountant. The Audit Committee met four times during the year. Attendance at meetings held is set out in the table on page 35.

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, including:

- (a) 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;
- (b) to review the Company's internal financial controls and its internal controls and risk management systems; (The review of internal financial control and risk management systems has been delegated to the Risk Committee to complete.);
- (c) to monitor and review the results of the Company's internal audit function and the annual internal audit plan;
- (d) 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;
- (e) to monitor and review the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements;
- (f) 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;
- (g) 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
- (h) 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;
- 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 and work in connection with the Defence Document for the second Ryanair bid. 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 four independent non-executive Directors. Until January 2009 the Committee members were Mr Ivor Fitzpatrick (Chairman), Mr Colm Barrington and Ms Anne Mills. In January 2009 the composition of the Committee was revised to include two additional members: Ms Danuta Gray was appointed as Chairman of the Committee and Mr Tom Corcoran was appointed as a member of the Committee. Ms Anne Mills retired on 21 March 2010 upon the expiry of her term of office as a director.

The Remuneration Committee determines the conditions of employment of executive Directors and the senior management team. It met six times during the year. Attendance at meetings held is set out in the table on page 35.

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

- (a) to determine and agree with the Board the 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 each executive Director and relevant senior management members, within the terms of the agreed policy.

Appointments Committee

In January 2009, the composition of the Appointments Committee was revised when Mr Laurence Crowley was appointed as Chairman of the Committee and Dr Colin Hunt and Mr Michael Johns were appointed as members (in addition to the continuing members being Mr Colm Barrington and Mr Tom Moran). 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 had five scheduled meetings during the year. Attendance at the meetings held is set out in the table on page 35.

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.

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

Mr Laurence Crowley, Mr Leslie Buckley and Mr Christoph Mueller were appointed to the Board in 2009 and Mr Montie Brewer and Ms Nicola Shaw were appointed to the Board since the year-end. All were nominated for appointment based on the skills they would bring to the Board. Detailed biographies of these Directors are set out on pages 10 and 11. Neither external consultants nor open advertisements were used in the appointment of Mr Laurence Crowley or Mr Leslie Buckley (who was appointed as a nominee of the Minister for Transport of Ireland). The Appointments Committee undertook a process involving other members of the Board and an external consultancy for the appointments of Mr Christoph Mueller, Mr Montie Brewer and Ms Nicola Shaw.

Directors' Report [continued]

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 January 2009, the Safety Committee was composed of Mr Colm Barrington, Ms Anne Mills and Mr Chris Wall. In January 2009 Mr Francis Hackett was appointed as Chairman of the committee and Mr David Begg was appointed as a member of the committee. Mr Chris Wall ceased to be a member of the Safety Committee on 5 March 2009. Ms Anne Mills retired on 21 March 2010 upon the expiry of her term of office as a director. The Committee met four times during the year. Attendance at meetings held is set out in the table on page 35.

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. In January 2009, the Risk Committee was reconstituted with Dr Colin Hunt as Chairman, and Messrs David Begg, Tom Corcoran, Tom Moran and Chris Wall as members of the committee. Mr Chris Wall ceased to be a member of the Safety Committee on 5 March 2009 and was replaced by Mr Michael Johns. The Risk Committee has reviewed and approved the Company's Corporate Risk Assessment Process for 2009. The Risk Committee met five times during the year. Attendance at meetings held is set out in the table on page 35.

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, Chairman and senior management;
- Investor roadshows and conference calls;
- Issuance of monthly traffic statistics;

- Investor Relations section on website, including full text of financial results and news releases, once these have been released to the Stock Exchange; and
- At the AGM, individual shareholders are able to question the Chairman and the Board.

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 Senior Independent Director is available to attend meetings with shareholders to develop a balanced understanding of their views and concerns;
- Non-executive Directors attend meetings where requested by major shareholders; and
- The Company also responds throughout the year to numerous queries from shareholders on a wide range of issues.

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. 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.

The key elements of the internal control systems in operation are as follows:

- Clearly defined organisation structures and lines of authority;
- 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 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;
- An internal audit function which reviews and reports on key business processes and controls;
- Corporate compliance monitoring; and
- An audit committee that approves audit plans and deals with significant control issues raised by internal or external audit.

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 27 with the responsibilities of the Company's Independent Auditors outlined on page 43.

Table 1.1 Attendance at Board and Board Committee meetings in the year ended 31 December 2009

Name	Position	Board	Committees				
			Audit	Remuneration	Appointments	Safety	Risk
Colm Barrington	Chairman	19/19		5/6	5/5	4/4	
David Begg	Director	15/19				3/4	4/5
Leslie Buckley	Director	11/11					
Thomas Corcoran	Director	19/19		4/6			5/5
Laurence Crowley	Director	17/19	4/4		4/5		
Ivor Fitzpatrick	Director	19/19	4/4	6/6			
Danuta Gray	Director	17/19	4/4	6/6			
Francis Hackett	Director	19/19				4/4	
Colin Hunt	Director	19/19			5/5		5/5
Michael Johns	Director	18/19			5/5		3/3
Anne Mills	Former Director	19/19		6/6		4/4	
Thomas Moran	Director	19/19			4/5		5/5
Christoph Mueller	Chief Executive Officer	7/7					
Chris Wall	Former Director	3/3				1/1	1/1
Dermot Mannion	Former Chief Executive Officer	6/6					
Sean Coyle	Former Chief Financial Officer	18/19					

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 nineteen Board meetings held in 2009, nine were scheduled meetings, four were unscheduled meetings and six were conference call meetings.

Directors' Report [continued]

- (1) Mr Leslie Buckley was appointed to the Board on 18 May 2009 and hence was eligible to attend a maximum of eleven Board meetings.
- (2) Mr Laurence Crowley was appointed to the Board on 9 January 2009 and was eligible to attend all board meetings and Committee meetings in 2009.
- (3) Mr Michael Johns was appointed to the Risk Committee in March 2009 and hence was eligible to attend a maximum of three Risk Committee meetings.
- (4) Mr Christoph Mueller was appointed to the Board on 14 September 2009 and hence was eligible to attend a maximum of seven Board meetings.
- (5) Mr Chris Wall ceased to be a Director on 5 March 2009 and hence was eligible to attend a maximum of three Board meetings.
- (6) Mr Dermot Mannion resigned from the Board on 6 April 2009 and hence was eligible to attend a maximum of six Board meetings.
- (7) Mr Sean Coyle resigned from the Board on 31 December 2009 and was eligible to attend all board meetings in 2009.

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, contains information in respect of the Company's AGM.

Regulation 21 of EC (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 EC (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 EC (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 26 (Substantial Interests in Share Capital), 30 and 31 (Terms of Appointment), 31 (Retirement and Re-election), 39 (Non-Executive Directors, Executive Directors and Service Contracts), 28 (Issue and Purchase of own shares and Share Ownership Restrictions), 84 (Called-Up Share Capital) and 84 to 86 (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 EC (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 71 (Employee Benefits), and 87 (Employee Participation and Pensions and other Post Employment Benefits) and pages 85 and 86 (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 Officer 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 Officer 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 Group or if, as a consequence of the change in control, a contract of employment is offered to him which is less beneficial to the Chief Executive Officer and which he declines to agree. Upon such termination the Company is obliged to pay the Chief Executive Officer an amount equal to one years basic salary for the financial year of the Group immediately preceding such termination. In the absence of the Remuneration Committee giving its consent, the Group is not obliged to make the foregoing payment to the Chief Executive Officer in the circumstances described.

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.

The Directors confirm that to the best of their knowledge, the annual report and the financial statements, prepared in accordance with applicable law and International Financial Reporting Standards as adopted by the EU, give (as at 31 December 2009) a true and fair view of the assets, liabilities, financial position and the profit or loss of the Company and the undertakings included in the consolidation taken as a whole and includes a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the directors

Colm Barrington

Chairman

Christoph Mueller

Director

28 April 2010

Report of the Remuneration Committee on Directors' Remuneration

Unaudited information

The Remuneration Committee

The Remuneration Committee of the Board comprises four independent non-executive Directors. Until January 2009 the Committee members were Mr Ivor Fitzpatrick (Chairman), Mr Colm Barrington and Ms Anne Mills. In January 2009 the composition of the Committee was revised to include two additional members: Ms Danuta Gray was appointed as Chairman of the Committee and Mr Tom Corcoran was appointed as a member of the Committee. On 21 March 2010 Ms Anne Mills retired upon the expiry of her term of office as a director.

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 will take advice from the Chief Executive Officer 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. The Remuneration Committee has previously conducted a review of remuneration arrangements for executive and senior management. In this process, the Remuneration Committee sought advice on the remuneration arrangements for executive and senior management in other Irish public companies as well as a peer group of European airlines. The Remuneration Committee is currently reviewing the Company's executive remuneration strategy for 2010 and future years.

Non-Executive Directors

Reduction of Non-Executive Directors' Fees

Non-executive Directors are remunerated by way of Directors' fees. Until 3 February 2009, Directors' fees were set at €45,000 per annum, the Chairman's fees were set at €175,000 per annum and an

additional fee of €10,000 per annum was payable to the Chairman of the Audit Committee.

On 3 February 2009, all Aer Lingus Board members voluntarily reduced their fees by 20%, resulting in Directors fees of €36,000, Chairman's fees of €140,000 and an additional fee of €8,000 per annum being payable to the Chairman of the Audit Committee. On 2 October 2009, all Aer Lingus Board members voluntarily reduced their fees by an additional 10%, resulting in Directors fees of €32,400, Chairman's fees of €126,000 and an additional fee of €7,200 per annum being payable to the Chairman of the Audit Committee.

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 Group of the seat. Where this amount is not paid by the director, the concession is liable to benefit-in-kind tax.

Executive Directors

Mr Christoph Mueller was appointed as an executive Director on 14 September 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 and health insurance, life assurance and car allowance. Mr Mueller does not receive Directors' fees. During 2009, Mr Dermot Mannion (Former Chief Executive) and Mr Sean Coyle (Former Chief Financial Officer) were each executive Directors of the Company. Mr Dermot Mannion resigned as a Director on 6 April 2009 and Mr Sean Coyle resigned as a Director on 31 December 2009. Their remuneration package consisted of basic salaries (subject to annual review), pension contributions, health insurance, life assurance and car allowance. They were also eligible to participate in the Company's annual performance related bonuses and the Company's long-term incentive plan (LTIP). As members of the Board of Directors, Mr Mannion and Mr Coyle also received Directors' fees. Further details of the remuneration 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.

Performance related bonuses

Performance related bonuses are payable to executive Directors for meeting clearly defined and stretching annual profit targets and strategic goals set and monitored by the Remuneration Committee. No bonuses were awarded in 2009. In previous years, deferral periods have not been required in respect of any performance related bonuses which have been paid.

Long-Term Incentive Plan (“LTIP”)

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 include both a financial criteria and a non-financial criteria which is linked to the Company’s long-term value creation. The performance objectives for the awards granted in 2007, 2008 and 2009 consist 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 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.

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

As announced on 9 September 2009, Mr Christoph Mueller was granted share options in respect of 1,500,000 shares in the Company and a conditional award of 500,000 shares in the Company. 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 2.4 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.

On 8 September 2009, Mr Christoph Mueller was granted a conditional award in respect of 500,000 shares. The conditional share award will vest on 1 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.

Service contracts

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

Executive Directors

All service contracts with executive Directors 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 Guide on Remuneration.

Non-executive Directors

The terms upon which each non-executive Director has 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

The Group operates a Revenue approved share ownership plan consisting of a Revenue approved employee share ownership trust and a Revenue approved profit sharing scheme. 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 Combined Code and the Irish Stock Exchange.

Directors pension benefits

Information regarding the pension benefits of the Directors are outlined in Table 2.2. The Company is required to make a contribution at a rate of 25% of basic salary to pension arrangements as are agreed with Mr Christoph Mueller. These pension arrangements have been provided for but not yet implemented.

Directors’ shareholdings

The interests of the Directors in office at 31 December 2009 in the shares of the Group are outlined in Table 2.3.

Report of the Remuneration Committee on Directors' Remuneration [continued]

Audited information

Table 2.1 Individual directors' remuneration for the year ended 31 December 2009

		Basic salary and fees	Pension contribution	Payment in lieu of notice	Other benefits ⁽¹⁾	Total 2009	Total 2008
		€'000	€'000	€'000	€'000	€'000	€'000
Executive directors							
Christoph Mueller	(2) (10)	158	–	–	13	171	–
Sean Coyle	(3) (8)	346	58	434	37	875	187
Dermot Mannion	(4) (9)	132	34	583	15	764	652
		636	92	1,017	65	1,810	839
Non-executive directors							
Colm Barrington		142	–	–	–	142	58
David Begg		36	–	–	–	36	41
Leslie Buckley	(5)	24	–	–	–	24	–
Thomas Corcoran		36	–	–	–	36	45
Laurence Crowley	(6)	36	–	–	–	36	–
Ivor Fitzpatrick		45	–	–	–	45	55
Danuta Gray		36	–	–	–	36	45
Francis Hackett		36	–	–	–	36	45
Colin Hunt		36	–	–	–	36	41
Michael Johns		36	–	–	–	36	45
Anne Mills		36	–	–	–	36	45
Thomas Moran		36	–	–	–	36	45
Chris Wall	(7)	10	–	–	–	10	45
		545	–	–	–	545	510
Total		1,181	92	1,017	65	2,355	1,349

(1) Other benefits relate principally to car allowances and medical/life assurance.

(2) Mr Christoph Mueller was appointed as a Director on 14 September 2009.

(3) Mr Sean Coyle resigned as a Director on 31 December 2009.

(4) Mr Dermot Mannion resigned as a Director on 6 April 2009.

(5) Mr Leslie Buckley was appointed as a Director on 18 May 2009.

(6) Mr Laurence Crowley was appointed as a Director on 9 January 2009.

(7) Mr Chris Wall ceased to be a Director on 5 March 2009 following the expiry of his appointment as a "Minister's Nominee".

(8) Mr Sean Coyle resigned as a Director on 31 December 2009. Upon his resignation he received a severance lump sum of €375,100, amounting to 12 months' emoluments in lieu of notice. In addition he received one year's employer pension contribution to a pension scheme, amounting to €58,400.

(9) Mr Dermot Mannion resigned as a Director on 6 April 2009. Upon his resignation he received €582,500 amounting to 12 months' emoluments in lieu of notice.

(10) 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 and conditional share awards granted to Mr Mueller prior to his appointment as a director. In respect of the share option and conditional share awards granted to Mr Mueller prior to his appointment as a director an amount of €46,336 has been charged.

Table 2.2 Pension

	Increase in accrued benefit during 2009	Transfer value of increase	Total accumulated accrued benefit at year-end
	€'000	€'000	€'000
Executive directors			
Dermot Mannion	2	68	13

Table 2.3 Interest of Directors in office at 31 December 2009 in the shares of the Group

	31 December 2009	1 January 2009*
	Number of shares	Number of shares
Colm Barrington	60,000	–
David Begg	500	500
Leslie Buckley	65,000	–
Sean Coyle	18,000	–
Thomas Corcoran	8,800	8,800
Laurence Crowley	–	–
Ivor Fitzpatrick	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
Anne Mills	18,942	8,942
Thomas Moran	20,000	20,000
Christoph Mueller	50,000	–

* Or date of appointment if later

There was no change in the Directors' interests in the period between 31 December 2009 and 27 April 2010, except that on 31 March 2010 Mr Colm Barrington acquired an additional 60,000 shares. Mr Barrington's interest in shares of the Group as at 27 April 2010 is 120,000.

- (1) On 17 April 2009, Mr Sean Coyle was granted conditional awards of 152,709 shares under the LTIP in respect of the vesting period 1 January 2008 to 31 December 2010. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP.
- (2) On 15 May 2009, Mr Sean Coyle was granted conditional awards of 436,497 shares under the LTIP in respect of the vesting period 1 January 2009 to 31 December 2011, resulting in total holdings of conditional awards under the LTIP of 589,206 shares. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP.
- (3) 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 7 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 7 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 7 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).
- (4) 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 1 September 2011 subject to Mr Mueller remaining in the employment of the group on that date.

Report of the Remuneration Committee on Directors' Remuneration [continued]

Table 2.4 Share options

As at 31 December 2009 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	Nominal dates exercisable
Mr Christoph Mueller	500,000	€1.00		7 September 2012
		7 September 2012	€0.573 ⁽ⁱ⁾	until 7 September 2019
		€1.60		7 September 2013
	500,000	7 September 2013	€0.677 ⁽ⁱⁱ⁾	until 7 September 2019
	500,000	€2.20		7 September 2014 until
7 September 2014		€0.886 ⁽ⁱⁱⁱ⁾	7 September 2019	

(i) 110% of €0.521 per share

(ii) 130% of €0.521 per share

(iii) 170% of €0.521 per share

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 2009 on pages 45 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 independent 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 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. 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 review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the June 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 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.

Independent Auditors' Report [continued]

Basis of audit opinion

We concluded 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 judgements 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 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 2009 and of its loss and cash flows for the year then ended;
- the Company's financial statements give a true and fair view, in accordance with IFRSs as adopted by European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Company's affairs as at 31 December 2009;
- 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 Director's report is consistent with the 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 2009 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 April 2010

Consolidated Income Statement

Year ended 31 December

	<i>Note</i>	2009	2008¹
		€'000	€'000
Revenue	6	1,205,739	1,354,994
Operating expenses			
Staff costs, pre net exceptional items	11	312,192	334,300
Depreciation and amortisation	8, 14, 15	82,674	71,865
Aircraft operating lease costs		55,845	51,270
Fuel and oil costs		331,657	401,341
Maintenance expenses		70,451	74,412
Airport charges		251,993	242,903
En-route charges		59,001	57,298
Distribution charges		45,458	49,421
Ground operations, catering and other operating costs		101,734	100,992
Other (gains)/losses – net	7	(24,248)	(8,796)
		1,286,757	1,375,006
Operating loss before net exceptional items	8	(81,018)	(20,012)
Net exceptional items	9	(88,630)	(140,888)
Operating loss after net exceptional items		(169,648)	(160,900)
Finance income	10	36,900	60,860
Finance costs	10	(22,098)	(22,018)
Loss before tax		(154,846)	(122,058)
Income tax credit	12	24,765	12,176
Loss for the period		(130,081)	(109,882)
Loss attributable to:			
– equity holders of the parent		(130,081)	(109,882)
Loss per share for loss attributable to the equity holders of the parent (expressed in € cent per share)			
– basic and diluted	13	(24.6)	(20.7)

¹ Comparatives have been restated following the adoption of IFRIC 13 *Customer Loyalty Programmes*.

The notes on pages 52 to 89 form an integral part of these financial statements.

Colm Barrington
Chairman

Christoph Mueller
Director

Approved by the Board of Directors on 28 April 2010.

Consolidated Statement of Comprehensive Income

Year ended 31 December

	<i>Note</i>	2009	2008¹
		€'000	€'000
Loss for the period		(130,081)	(109,882)
Other comprehensive income/(loss)			
<i>Available-for-sale reserve</i>			
– Fair value gains		–	562
– Deferred tax on fair value gains		–	(70)
– Amortisation of available-for-sale reserve	10	(2,060)	(1,642)
– Deferred tax on amortisation of available-for-sale reserve	25	41	439
<i>Cash flow hedges</i>			
– Fair value losses		(2,516)	(68,865)
– Deferred tax on fair value losses	25	315	8,608
– Transfer to fuel costs		119,936	(9,737)
– Deferred tax on transfer to fuel costs	25	(14,992)	1,217
– Transfer to other gains/losses – net	7	(31,365)	6,221
– Deferred tax on transfer to other gains/losses – net	25	3,921	(777)
Other comprehensive income/(loss) for the period		73,280	(64,044)
Total comprehensive loss for the period		(56,801)	(173,926)
Total comprehensive loss attributable to:			
– equity holders of the parent		(56,801)	(173,926)

¹ Comparatives have been restated following the adoption of IFRIC 13 *Customer Loyalty Programmes*.

The notes on pages 52 to 89 form an integral part of these financial statements.

Colm Barrington

Chairman

Christoph Mueller

Director

Approved by the Board of Directors on 28 April 2010.

Consolidated Statement of Financial Position

Note	31 December 2009	31 December 2008 ¹	1 January 2008 ¹
	€'000	€'000	€'000
Assets			
Non-current assets			
Property, plant and equipment	14	790,486	708,961
Intangible assets	15	5,613	7,109
Loans and receivables	17	71,944	80,983
Derivative financial instruments	18	6,849	39,447
Deferred tax asset	25	4,755	3,352
Deposits	21	101,305	169,279
		980,952	1,009,131
Current assets			
Inventories	19	816	514
Derivative financial instruments	18	17,699	30,872
Trade and other receivables	20	75,835	88,901
Current income tax receivables		18	25
Loans and receivables	17	5,362	34,126
Deposits	21	636,093	916,298
Cash and cash equivalents	21	13,762	6,081
		749,585	1,076,817
Total assets		1,730,537	2,085,948
Equity			
Called-up share capital	26	26,702	26,698
Share premium	27	510,605	506,847
Capital conversion reserve fund	27	5,048	5,048
Capital redemption reserve fund	27	343,796	343,516
Other reserves	27	6,643	(68,408)
Retained earnings		(188,297)	(51,246)
Total equity		704,497	762,455
Liabilities			
Non-current liabilities			
Finance lease obligations	23	444,374	447,920
Derivative financial instruments	18	7,303	35,074
Deferred tax liabilities		–	–
Provisions for other liabilities and charges	24	115,050	44,401
		566,727	527,395
Current liabilities			
Trade and other payables	22	340,710	415,838
Finance lease obligations	23	48,247	104,949
Derivative financial instruments	18	11,873	114,206
Provisions for other liabilities and charges	24	58,483	161,105
		459,313	796,098
Total liabilities		1,026,040	1,323,493
Total equity and liabilities		1,730,537	2,085,948

¹ Comparatives have been restated following the adoption of IFRIC 13 *Customer Loyalty Programmes*.

The notes on pages 52 to 89 form an integral part of these financial statements.

Colm Barrington

Chairman

Christoph Mueller

Director

Approved by the Board of Directors on 28 April 2010.

Company Statement of Financial Position

As at 31 December

	<i>Note</i>	2009	2008
		€'000	€'000
Assets			
Non-current assets			
Financial assets	33	109,696	109,696
Current assets			
Trade and other receivables	34	807,722	810,650
Total assets		917,418	920,346
Equity			
Called-up share capital	26	26,702	26,698
Share premium	27	510,605	506,847
Capital conversion reserve fund	27	5,048	5,048
Capital redemption reserve fund	27	343,796	343,516
Retained earnings		31,267	38,237
Total equity		917,418	920,346

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 loss of €7.0m (2008: €nil).

The notes on pages 52 to 89 form an integral part of these financial statements.

Colm Barrington
Chairman

Christoph Mueller
Director

Approved by the Board of Directors on 28 April 2010.

Consolidated Statement of Changes in Equity

	Note	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
At 1 January 2008	26, 27	26,575	502,108	5,048	343,516	(261)	3,953	(4,275)	439	66,809	943,912
Impact of adoption of IFRIC 13		–	–	–	–	–	–	–	–	(8,173)	(8,173)
Restated balance		26,575	502,108	5,048	343,516	(261)	3,953	(4,275)	439	58,636	935,739
Comprehensive loss for the year ended 31 December 2008 ¹		–	–	–	–	(63,333)	(711)	–	–	(109,882)	(173,926)
Issue of bonus shares	26, 27	3	(3)	–	–	–	–	–	–	–	–
Issue of new shares	26, 27	120	4,742	–	–	–	–	(4,862)	–	–	–
Share-based payment reserve		–	–	–	–	–	–	–	735	–	735
Deferred tax impact		–	–	–	–	–	–	–	(93)	–	(93)
At 31 December 2008		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
At 31 December 2009		26,702	510,605	5,048	343,796	11,705	1,223	(6,326)	41	(188,297)	704,497

The notes on pages 52 to 89 form an integral part of these financial statements.

Company Statement of Changes in Equity

	<i>Note</i>	Called up share capital	Share premium	Capital conversion reserve fund	Capital redemption reserve fund	Retained earnings	Total equity
		€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2008		26,575	502,108	5,048	343,516	38,237	915,484
Issue of bonus shares	26, 27	3	(3)	–	–	–	–
Issue of new shares	26, 27	120	4,742	–	–	–	4,862
At 31 December 2008		26,698	506,847	5,048	343,516	38,237	920,346
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	–	–
At 31 December 2009		26,702	510,605	5,048	343,796	31,267	917,418

The notes on pages 52 to 89 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December

	<i>Note</i>	2009	2008
		€'000	€'000
Cash flows from operating activities	32	(168,113)	(8,627)
Income tax (paid)/received		(18)	5,046
Net cash used in operations		(168,131)	(3,581)
Cash flows from investing activities			
Purchases of property, plant and equipment		(108,779)	(114,490)
Purchases of intangible assets	15	(3,889)	(5,619)
Decrease/(increase) in deposits		390,551	(44,099)
Interest received		19,047	46,766
Net cash generated from/(used in) investing activities		296,930	(117,442)
Cash flows from financing activities			
Proceeds from borrowings		–	186,135
Repayments of borrowings		(113,513)	(38,695)
Interest paid		(8,905)	(17,684)
Net cash (used in)/generated from financing activities		(122,418)	129,756
Net increase in cash and cash equivalents		6,381	8,733
Cash and cash equivalents at 1 January	21	6,081	(12,185)
Exchange gains on cash and cash equivalents		1,300	9,533
Cash and cash equivalents at 31 December	21	13,762	6,081

The notes on pages 52 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 2009 and 2008 or at either year-end.

Notes to the 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 28 April 2010. The financial statements are for the Group for the financial years ended 31 December 2009 and 31 December 2008. The principal companies within the Group during the years ended 31 December 2009 and 31 December 2008 are disclosed in Note 16.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 estimates 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 following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009:

- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRS 1 and IAS 27 (Amendment) *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IFRS 2 (Amendment) *Vesting Conditions and Cancellations*
- IFRS 7 (Amendment) *Improving Disclosures about Financial Instruments*
- IFRS 8 *Operating Segments*
- IAS 1 (Revised) *Presentation of Financial Statements*
- IAS 1 and IAS 32 (Amendment) *Puttable Financial Instruments and Obligations Arising on Liquidation*
- IAS 23 (Revised) *Borrowing Costs*
- IFRIC 15 *Agreements for the Construction of Real Estate*

2 Summary of significant accounting policies [continued]

- Improvements to IFRSs (May 2008)
 - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
 - IFRS 7 *Financial Instruments: Disclosures*
 - IAS 1 *Presentation of Financial Instruments*
 - IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
 - IAS 10 *Events after the Reporting Period*
 - IAS 16 *Property, Plant and Equipment*
 - IAS 18 *Revenue*
 - IAS 19 *Employee Benefits*
 - IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*
 - IAS 23 *Borrowing Costs*
 - IAS 27 *Consolidated and Separate Financial Statements*
 - IAS 28 *Investment in Associates*
 - IAS 29 *Financial Reporting in Hyperinflationary Economies*
 - IAS 31 *Interest in Joint Ventures*
 - IAS 34 *Interim Financial Reporting*
 - IAS 36 *Impairment of Assets*
 - IAS 38 *Intangible Assets*
 - IAS 39 *Financial Instruments: Recognition and Measurement*
 - IAS 40 *Investment Property*
 - IAS 41 *Agriculture*

When the adoption of a new standard, an amendment to an existing standard or an interpretation, which is listed above, is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRIC 13 Customer Loyalty Programmes

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue in the period in which the award credits are redeemed. The Group maintains a loyalty points programme, the Gold Circle Club, which allows customers to accumulate points when they purchase flights. The points can then be redeemed for free flights, products and services with Aer Lingus and its partners, subject to a minimum number of points being obtained. The Group has historically recorded a liability at the time of sale based on the costs expected to be incurred to supply free flights, products and services in the future. IFRIC 13 has no specific provisions on transition, therefore, the Group has followed IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and applied the changes retrospectively. The prior period financial information has therefore been restated.

Under the new policy, consideration received is allocated between the flights sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

As a result of the adoption of IFRIC 13, the following adjustments were made to the 2008 financial statements:

As of 1 January 2008:

Increase in deferred tax asset	€1,168,000
Increase in provisions	€9,341,000
Decrease in opening retained earnings	€8,173,000

As of 31 December 2008:

Increase in deferred tax asset	€1,463,000
Increase in provisions	€11,703,000
Decrease in opening retained earnings	€10,240,000

For the year ended 31 December 2008:

Decrease in revenues	€2,362,000
Increase in income tax credit	€295,000
Increase in loss after tax	€2,067,000
Increase in loss per share	0.3 € cent per share

Notes to the Consolidated Financial Statements [continued]

2 Summary of significant accounting policies [continued]

IFRS 2 (Amendment) *Vesting Conditions and Cancellations*

The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to the grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (Amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

IFRS 7 (Amendment) *Improving Disclosures about Financial Instruments*

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The fair value measurement disclosures are presented in Note 3.3. The Group has elected not to provide comparative information for these disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRS 8 *Operating Segments*

IFRS 8 replaces IAS 14 *Segment Reporting*, which required identification of two sets of segments – one based on related products and services, and the other on geographical areas. IAS 14 regarded one set as primary segments and the other as secondary segments. IFRS 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a redesignation of the Group's reportable segments (see note 5), but has had no impact on the reported results or financial position of the Group.

IAS 1 (Revised) *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition the standard introduces the statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements: an income statement and a statement of comprehensive income. The revised standard also introduced a number of terminology changes including revised titles for the financial statements. The consolidated financial statements have been prepared using the revised titles.

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:

- IFRS 1 (Revised) *First Time Adoption of IFRS* (effective 1 July 2009)
- IFRS 3 (Revised) *Business Combinations* (effective 1 July 2009)
- IAS 27 (Amended) *Consolidated and Separate Financial Statements* (effective 1 July 2009)
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective 1 July 2009)
- IFRIC 18 *Transfers of Assets from Customers* (effective 1 July 2009)
- IFRS 1 (Amendment) *Additional exemptions for First-time Adopters* (effective 1 January 2010)
- IFRS 2 (Amendment) *Group Cash-settled Share-based Payment Transactions* (effective 1 January 2010)
- 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)
- IAS 24 (Revised) *Related Party Disclosures* (effective 1 January 2011)
- IFRIC 14 *Prepayments of Minimum Funding Requirement* (effective 1 January 2011)
- IFRS 9 *Financial Instruments* (effective 1 January 2013)

2 Summary of significant accounting policies [continued]

- Improvements to IFRSs (April 2009)
 - IFRS 2 *Share-based Payments* (effective 1 July 2009)
 - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (effective 1 January 2010)
 - IFRS 8 *Operating Segments* (effective 1 January 2010)
 - IAS 1 *Presentation of Financial Statements* (effective 1 January 2010)
 - IAS 7 *Statement of Cash Flows* (effective 1 January 2010)
 - IAS 17 *Leases* (effective 1 January 2010)
 - IAS 18 *Revenue* (effective 1 April 2009)
 - IAS 36 *Impairment of Assets* (effective 1 January 2010)
 - IAS 38 *Intangible Assets* (effective 1 July 2009)
 - IAS 39 *Financial Instruments: Recognition and Measurement* (effective 1 January 2010)
 - IFRIC 9 *Reassessment of Embedded Derivatives* (effective 1 July 2009)
 - IFRIC 16 *Hedge of a Net Investment in a Foreign Operation* (effective 1 July 2009)

Other than IAS 24 (Revised) and 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.

2.2 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 as consideration plus equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 minority 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, balances 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 the Chief Executive Officer.

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 or monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Notes to the Consolidated Financial Statements [continued]

2 Summary of significant accounting policies [continued]

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.

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
Flight equipment		
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 years	Nil
Modifications to leased aircraft	Period of lease	Nil
Property		
Freehold	Principally 50 years	Nil
Leasehold	Period of lease	Nil
Equipment		
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 asset's 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 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.

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, held to maturity investments and available-for-sale financial assets. 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 receivables 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. The Group's loans and receivables comprise 'loans and receivables' and 'trade and other receivables' in the statement of financial position.

(b) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale.

Held to maturity investments are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. They are recognised 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.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

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.

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 the 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.

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 finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of finance income when the Group's right to receive payments is established.

The available-for-sale fair value reserve remaining following the reclassification of debt securities previously classified as available-for-sale to loans and receivables is credited to the income statement using the effective interest method.

Notes to the Consolidated Financial Statements [continued]

2 Summary of significant accounting policies [continued]

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 measureable 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 assesses 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 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.

(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 in (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 Summary of significant accounting policies [continued]

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 income' or 'finance costs'. The gain or loss relating to the ineffective portion 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.

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 purchase that is hedged takes place). They are included under the relevant caption in the consolidated income statement, i.e. fuel hedges in the 'fuel and oil' caption and foreign exchange hedges in the '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 transaction is ultimately recognised in the income statement. 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.

Notes to the Consolidated Financial Statements [continued]

2 Summary of significant accounting policies [continued]

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 operations, catering and other operating costs'. When a trade receivable is uncollectable, 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 statement of financial position.

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 statement of financial position date in the countries where the group companies 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 statement of financial position 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 asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.19 Employee benefits

(a) 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 and 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.

Notes to the Consolidated Financial Statements [continued]

2 Summary of significant accounting policies [continued]

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.

(b) Employee profit sharing scheme

The Group recognises a liability and an expense for the employee profit share scheme payable to the Employee Share Ownership Trust (“ESOT”), based on a formula that takes into consideration the profit attributable to the parent’s shareholders after certain adjustments. The expense is identified as a separate item in the income statement.

2.20 Share-based payment

The Group operates 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
- including 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. Upon expiry of the lease any remaining balance is released or charged 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 as at the reporting date having regard to the current status of negotiations.

2 Summary of significant accounting policies [continued]

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 goods and 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:

(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 statement of financial position date is included in 'trade and other payables' under the caption of 'ticket sales in advance'. Expired tickets are recognised as revenue using estimates 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) Frequent flyer revenue

Redemption revenue received for the issuance of Gold Circle points is deferred as a liability until the points are redeemed or the passenger is uplifted in the case of flight redemptions.

Redemption revenue is measured based on management's estimate of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards are reduced to take into account the proportion of points that are expected to expire (breakage).

(c) Interest income

Interest income is recognised using the effective interest method.

(d) 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 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.

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.

Notes to the Consolidated Financial Statements [continued]

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and commodity price risk. The Group's overall 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.

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. In addition, a minimum of 50% of the committed flight equipment capital expenditure will be hedged when the commercial contract is signed. This minimum level is actively reviewed in the context of the scale and delivery timescales for flight equipment.

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

(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 are managed by fixing interest rates or 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 2009 would reduce profits by €4.9m.

3 Financial risk management [continued]

(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 the profitability of operations. The primary policy objective for the management of fuel price exposure in the Group is to reduce the volatility of fuel costs and increase predictability of future fuel costs.

Up to July 2009, the group treasury function managed the fuel price exposure associated with the Group's trading activities on a selective hedging basis. This risk management policy targeted a minimum of 40% cover for fuel exposures for the current financial year and a minimum of 20% for the following financial year. 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 of following 24 months on a rolling basis, ranging from 90% cover going into next month to 3% cover 24 months out. This generates average cover levels of approximately 60% for the near 12 month period (rolling year 1) and 20% for the following 12 months (rolling year 2). 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 commodity swaps.

A US \$10 increase in the price per tonne of jet fuel price in 2009 would have increased fuel costs by \$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 limits are regularly monitored and reviewed in light of the commercial requirements of the Group.

At 31 December 2009 the Group had a total credit exposure of €0.8bn relating to bonds, deposits and cash, which was spread over 27 financial counterparties. Of this €0.7m was due to mature in 12 months. All approved counterparties have minimum short-term credit ratings equivalent to P1 (Moody's). The Group does not have any material credit risk arising from the aging of trade and other receivables.

Following the downgrade of many financial institutions' ratings in 2009, 8% of the total credit exposure of €0.8bn, was held with financial institutions, holding long-term credit ratings equivalent to AAA, AA1 or AA2 (Moody's). 61% of the total credit exposure was held with financial institutions, holding long term-ratings equivalent to AA3/A1. The remaining 31% was held with financial institutions with long-term ratings of A2 or A3 (Moody's), mainly comprising deposits with maturity dates within one year.

(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.

Notes to the Consolidated Financial Statements [continued]

3 Financial risk management [continued]

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position 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
At 31 December 2009					
Finance lease obligations	70,952	67,338	197,852	278,987	615,129
Trade and other payables	340,710	–	–	–	340,710
At 31 December 2008					
Finance lease obligations	128,812	66,480	141,915	351,077	688,284
Trade and other payables	415,838	–	–	–	415,838

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 statement of financial position 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
At 31 December 2009					
<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	225,162	66,886	–	–	292,048
Inflow	212,573	69,207	–	–	281,780
At 31 December 2008					
<i>Cross-currency interest rate swap</i>					
Outflow	–	–	20,170	–	20,170
Inflow	–	–	13,200	–	13,200
<i>Forward foreign currency contracts</i>					
Outflow	614,990	344,639	274,203	–	1,233,832
Inflow	646,013	369,186	291,108	–	1,306,307
<i>Forward fuel price contracts</i>					
Outflow	261,572	87,233	–	–	348,805
Inflow	146,770	57,766	–	–	204,536

3 Financial risk management [continued]

3.2 Financial risk factors

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 debt divided by total capital. Debt consists solely of finance lease obligations. Total capital is calculated as equity as shown in the consolidated statement of financial position plus 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 or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Assets				
Derivative financial instruments	–	24,548	–	24,548
Liabilities				
Derivative financial instruments	–	19,176	–	19,176

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 derivative 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 statement of financial position 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 statement of financial position date, with the resulting value discounted back to present value.

Notes to the Consolidated Financial Statements [continued]

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 reporting 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. The actual outcome 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

The Group tests, in accordance with the accounting policy stated in Note 2.7, whether property, plant and equipment has suffered any impairment when, at the end of a reporting period, there is any indication that an asset may be impaired. The recoverable amounts are determined based on value-in-use calculations. These calculations require the use of estimates and are sensitive to the growth rate assumed for the Group and the discount rate used to estimate the present value of future cash flows.

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 considers each route to be an operating segment, however having assessed the aggregation criteria specified in IFRS 8, the Group has determined that it has only one operating segment for financial reporting purposes. In prior years, segment information reported externally was analysed on the basis of the types of service supplied by the Group, i.e. passenger travel and cargo transportation, however information reported to the executive management team is more specifically focused on flight profitability data.

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 restructuring costs and 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.

5 Segment information [continued]

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 €1,205.7m (2008: €1,355.0) is wholly derived from external customers. Depreciation and amortisation of €82.7m (2008: €71.9m) is included in the measure of segment profit and loss.

	2009	2008
	€'000	€'000
Adjusted operating loss before net exceptional items, interest and tax for the reportable segment	(70,834)	(26,972)
Miscellaneous group level adjustments	(10,184)	6,960
Net exceptional items	(88,630)	(140,888)
Operating loss after net exceptional items	(169,648)	(160,900)
Finance income	36,900	60,860
Finance costs	(22,098)	(22,018)
Loss before tax	(154,846)	(122,058)

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

	2009	2008
	€'000	€'000
Total segment assets	897,316	875,829
Deferred tax asset	4,755	3,352
Loans and receivables	77,306	115,109
Deposits	737,398	1,085,577
Cash and cash equivalents	13,762	6,081
Total assets	1,730,537	2,085,948

During the period additions totalling €162.7m (2008: €121.0m) were made to the reportable segments non-current assets.

Revenues from external customers, attributable to Ireland, the Group's country of domicile, amounted to €723.5m (2008: €840.1m) and revenues from external customers, attributed to foreign countries in total from which the Group derives revenue, amounted to €482.2m (2008: €514.9m). Substantially all of the Group's non-current assets are located in Ireland.

6 Revenue

	2009	2008
	€'000	€'000
Passenger revenue	992,683	1,149,210
Ancillary revenue	173,907	149,748
Cargo revenue	34,338	50,273
Other revenue	4,811	5,763
	1,205,739	1,354,994

Notes to the Consolidated Financial Statements [continued]

7 Other (gains)/losses – net

	2009	2008
	€'000	€'000
Fair value losses on cross-currency interest rate swap	1,018	33
Realised (gains)/losses on forward foreign currency contracts	(31,365)	6,221
Net foreign exchange losses/(gains) on operating activities	6,099	(15,050)
	(24,248)	(8,796)

8 Operating loss before net exceptional items

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

	2009	2008
	€'000	€'000
Depreciation on property, plant and equipment (Note 14)		
– owned	40,235	30,262
– held under finance leases	37,054	39,296
Amortisation of intangible assets (Note 15)	5,385	2,307
Operating lease rentals payables		
– plant and machinery	85	77
– aircraft	55,845	51,270
– property	9,002	10,376
Auditors' remuneration		
– audit fee	190	200
– non-audit related	500	446
Directors' emoluments*	2,355	1,707

* Further information on Director's emoluments is included in the Report of the Remuneration Committee on Directors' Remuneration on pages 38 to 42.

9 Net exceptional items

	2009	2008
	€'000	€'000
Takeover defence costs (a)	–	5,845
Compensation under PCI (b)	–	17,543
Restructuring (c)	88,630	117,500
	88,630	140,888

(a) Provision for costs incurred in the defence of takeover bids.

(b) Costs incurred as a result of compensation due to staff under the Programme for Continuous Improvement.

(c) Provision for 2009 Cost Reduction Programme and 2008 Early Retirement, Voluntary Severance and Migration Schemes.

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.

10 Finance income and expense

	2009	2008
	€'000	€'000
Finance income		
Interest on cash and term deposits	30,690	54,798
Interest income on loans and receivables	4,150	4,420
Amortisation of available-for-sale reserve	2,060	1,642
	36,900	60,860
Finance expense		
On bank loans and overdrafts	–	57
Finance lease interest	22,098	21,508
Finance charge on discounted provision	–	453
	22,098	22,018

11 Employee benefits

The average number of persons employed by the Group in the financial year was 3,844 (2008: 4,035) split as follows:

	2009	2008
	€'000	€'000
Operations and administration	3,736	3,931
Sales and marketing	108	104
	3,844	4,035

Their associated payroll costs were as follows:

	2009	2008
	€'000	€'000
Wages and salaries	247,142	279,763
Social welfare costs	22,162	24,463
Pension costs (Note 29)	24,882	29,339
Other staff costs	17,960	–
Share-based payments (Note 27)	46	735
	312,192	334,300

Notes to the Consolidated Financial Statements [continued]

12 Income tax*(i) Income tax credit recognised in the income statement*

	2009	2008
	€'000	€'000
Current taxation		
Irish corporation tax	–	–
Remeasurement of income tax provisions	12,796	–
	12,796	–
Deferred tax		
Origination and reversal of temporary differences	24,765	12,176
Write-down of deferred tax asset	(12,796)	–
	11,969	12,176
Total income tax credit	24,765	12,176

(ii) Reconciliation of effective tax rate

	2009	2008
	€'000	€'000
Loss on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2008: 12.5%)	19,356	15,257
Effects of:		
Expenses not deductible for tax purposes	(28)	(276)
Differences in tax rates	(688)	(3,288)
Other adjusting items	6,125	483
Income tax credit for the period	24,765	12,176

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 2009 and 2008. Therefore, there was no difference, in both periods, between basic and diluted earnings per share.

	2009	2008
Loss attributable to equity holders of the parent (€'000s)	(130,081)	(109,882)
Weighted average number of ordinary shares in issue (000s)	529,746	529,731
Basic and diluted loss per share (€ cent per share)	(24.6)	(20.7)

14 Property, plant and equipment

	Flight equipment	Property	Ground equipment	Other equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
At 1 January 2008	893,821	38,286	50,490	31,229	1,013,826
Additions	109,136	727	3,511	2,045	115,419
Disposals	–	(473)	(10,450)	(50)	(10,973)
Transfer to intangible assets	–	–	–	(10,301)	(10,301)
At 31 December 2008	1,002,957	38,540	43,551	22,923	1,107,971
Accumulated depreciation					
At 1 January 2008	258,227	30,480	35,851	26,168	350,726
Depreciation charge for the period	58,485	1,740	5,680	3,653	69,558
Disposals	–	(473)	(10,450)	(50)	(10,973)
Transfer to intangible assets	–	–	–	(10,301)	(10,301)
At 31 December 2008	316,712	31,747	31,081	19,470	399,010
Cost					
At 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)
At 31 December 2009	1,144,512	38,965	48,391	23,462	1,255,330
Accumulated depreciation					
At 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)
At 31 December 2009	377,827	32,879	33,636	20,502	464,844
Net book value					
At 31 December 2009	766,685	6,086	14,755	2,960	790,486
At 31 December 2008	686,245	6,793	12,470	3,453	708,961
Leased assets included above (net book value)					
At 31 December 2009	514,988	–	–	–	514,988
At 31 December 2008	472,076	–	–	–	472,076

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 2009 or 2008.

Finance lease obligations are secured on flight equipment with a net book value of €507.8m (2008: €528.6m) (Note 23).

The depreciation expense of €77.3m (2008: €69.6m) has been charged in 'depreciation and amortisation' in the income statement.

Notes to the Consolidated Financial Statements [continued]

15 Intangible assets**Computer software**

	2009	2008
	€'000	€'000
Cost		
At 1 January	44,554	44,049
Additions	3,889	5,619
Disposals	–	(15,415)
Transfer from property, plant and equipment	–	10,301
At 31 December	48,443	44,554
Aggregate amortisation		
At 1 January	37,445	40,252
Charge for the year	5,385	2,307
Disposals	–	(15,415)
Transfer from property, plant and equipment	–	10,301
At 31 December	42,830	37,445
Net book value		
At 1 January	7,109	3,797
At 31 December	5,643	7,109

The amortisation expense of €5.4m (2008: €2.3m) 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 during the year and employs former employees of SR Technics who provide maintenance services 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 Limited 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, Ireland. 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.

During 2008, three group companies (Seres Limited, Duneast Limited and Crodley Limited) were put into liquidation and dissolved. All of these companies were dormant.

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

17 Loans and receivables

Following amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* the Group reclassified as loans and receivables, all the financial assets that had been previously classified as available-for-sale, with effect from 1 July 2008. This reclassification was made as these financial assets meet the definition of loans and receivables and the Group has the intention and ability to hold these financial assets until maturity.

Available-for-sale financial assets

	2009	2008
	€'000	€'000
At 1 January	–	105,823
Exchange differences	–	(7,141)
Interest income	–	1,464
Revaluation movement transferred to equity	–	562
Reclassification to loans and receivables	–	(100,708)
At 31 December	–	–
Less: non-current portion	–	–
Current portion	–	–

Loans and receivables

	2009	2008
	€'000	€'000
At 1 January	115,109	–
Reclassification from available-for-sale	–	100,708
Matured during the period	(40,204)	–
Exchange differences	(1,749)	11,445
Interest income	4,150	2,956
At 31 December	77,306	115,109
Less: non-current portion	(71,944)	(80,983)
Current portion	5,362	34,126

There were no impairment provisions for loans and receivables in 2009 and 2008.

Loans and receivables comprise the following:

	2009	2008
	€'000	€'000
Unlisted securities:		
– Zero-coupon debt securities traded on inactive markets with maturity dates from September 2010 to September 2015	77,306	115,109

Notes to the Consolidated Financial Statements [continued]

17 Loans and receivables [continued]

Financial assets with a fair value of €100.7m were reclassified during 2008, with the fair value at that date becoming the assets' new carrying value for amortised cost.

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. Cash flows from these securities, including the interest receivable thereon, are expected to 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.

As at 31 December 2009 the fair value and carrying value of the financial assets reclassified were €71.3m (31 December 2008: €110.4m) and €77.3m (31 December 2008: €115.1m) respectively. If the financial assets had not been reclassified a fair value loss of €1.8m (2008: €6.3m) 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. €2.1m (2008: €1.6m) 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 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 5 years
	€'000	€'000	€'000	€'000
Unlisted debt securities:	39,917	5,663	12,703	77,100

18 Derivative financial instruments

	2009	2009	2008	2008
	€'000	€'000	€'000	€'000
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap	–	7,303	–	6,285
Forward foreign exchange contracts	19,831	–	70,319	–
Forward fuel price contracts	4,717	11,873	–	142,995
Total	24,548	19,176	70,319	149,280
Less non-current portion:				
Cross-currency interest rate swap	–	7,303	–	6,285
Forward foreign exchange contracts	5,348	–	39,447	–
Forward fuel price contracts	1,501	–	–	28,789
Total non-current portion	6,849	7,303	39,447	35,074
Current portion	17,699	11,873	30,872	114,206

18 Derivative financial instruments [continued]

Foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2009 were €975.0m (2008: €1,251.1m).

Cross-currency interest rate swaps

The notional principal amount of the outstanding cross-currency interest rate swap contract at 31 December 2009 was €20.2m (2008: €20.2m)

At 31 December 2009 the fixed interest rates vary from 2.5% to 3.8% (2008: 2.5% to 3.8%).

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 2009 were €292.0m (2008: €348.8m). The outstanding fuel price contracts at 31 December 2009 amounted to 379,403 metric tonnes of aircraft fuel (2008: 541,917 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 charge for ineffectiveness of €0.7m is reflected in the income statement in 2009 (2008: €Nil).

19 Inventories

	2009	2008
	€'000	€'000
Sundry inventory	816	514

20 Trade and other receivables

	2009	2008
	€'000	€'000
Trade and other receivables	32,022	33,049
Other amounts receivable	38,374	50,395
Prepayments and accrued income	3,440	4,120
Value Added Tax	1,999	1,337
	75,835	88,901

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 number of customers who are internationally dispersed.

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

Notes to the Consolidated Financial Statements [continued]

20 Trade and other receivables [continued]

At 31 December 2009, trade and other receivables of €4.7m (2008: €3.4m) 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:

	2009	2008
	€'000	€'000
Up to 1 month past due	4,662	3,356

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:

	2009	2008
	€'000	€'000
Euro	44,187	46,368
US dollar	26,232	30,614
UK pound	4,824	11,919
Other currencies	592	–
	75,835	88,901

21 Gross cash, deposits and cash and cash equivalents

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

	2009	2008
	€'000	€'000
Non-current		
Loans and receivables (Note 17)	71,944	80,983
Deposits	101,305	169,279
	173,249	250,262
Current		
Loans and receivables (Note 17)	5,362	34,126
Deposits	636,093	916,298
Cash and cash equivalents	13,762	6,081
	655,217	956,505
Total gross cash	828,466	1,206,767

At 31 December 2009 the Group held deposits of €58.9m (31 December 2008: €116.4m), which were not available for immediate use by the Group.

21 Gross cash, deposits and cash and cash equivalents [continued]

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

	2009	2008
	€'000	€'000
Cash and deposits with an original maturity of less than three months	13,762	6,081

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

	2009	2008
	€'000	€'000
Euro	404,948	611,291
US dollar	343,939	307,163
Pound sterling	736	1,861
Other	1,537	2,064
	751,160	922,379

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 2.02% (2008: 3.8%). These deposits have an average maturity of 79 days (2008: 84 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

	2009	2008
	€'000	€'000
Trade payables	66,415	67,066
Accruals and deferred income	72,643	91,334
Ticket sales in advance	118,451	146,779
Employment related taxes	12,986	15,561
Other amounts payable	70,215	95,098
	340,710	415,838

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

Notes to the Consolidated Financial Statements [continued]

23 Finance lease obligations

	2009	2008
	€'000	€'000
Repayable – within one year	48,247	104,949
– from one to two years	47,969	45,609
– from two to five years	142,639	92,037
– after five years	253,766	310,274
Less current portion	492,621	552,869
	(48,247)	(104,949)
Non-current portion	444,374	447,920

Finance lease obligations are effectively secured as the rights to the leased aircraft revert to the lessors in the event of default.

The carrying amounts and fair value of the non-current finance lease obligations are as follows:

	Carrying amounts 2009	Carrying amounts 2008	Fair values 2009	Fair values 2008
	€'000	€'000	€'000	€'000
Finance lease obligations	492,621	447,920	399,562	407,708

The fair values are based on cash flows discounted using a rate based on prevailing forward market rates. In 2009, these rates ranged from 1.0% to 3.8%.

The carrying amounts of current finance lease obligations approximate their fair values, as the impact of discounting is not significant.

The carrying amounts of the Group's finance lease obligations are denominated in the following currencies:

	2009	2008
	€'000	€'000
Euro	74,720	59,512
US dollar	417,901	493,357
	492,621	552,869

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

	2009	2009	2008	2008
	€	\$	€	\$
Finance lease obligations	3.7%	2.3%	3.9%	3.7%

23 Finance lease obligations [continued]

Finance lease obligation – minimum lease payments

	2009	2008
	€'000	€'000
No later than one year	70,952	123,693
Later than one year but no later than five years	265,190	238,613
Later than five years	278,987	295,290
	615,129	657,596
Future finance charges on finance leases	(122,508)	(104,727)
Capital value of finance lease liabilities	492,621	552,869

The Group had no undrawn borrowing facilities at 31 December 2009 or 31 December 2008.

24 Provisions for liabilities and charges

	Business repositioning (a)	Aircraft maintenance (b)	Maintenance contracts (c)	Other (d)	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2008	8,646	57,369	8,263	26,056	100,334
Provided during the period	129,207	18,777	–	3,396	151,380
Written back during the period	–	(4,497)	–	(2,001)	(6,498)
Finance charge on discounted provisions	–	–	453	–	453
Utilised during the period	(9,887)	(20,054)	(8,716)	(1,506)	(40,163)
Reclassifications	1,532	–	–	(1,532)	–
At 31 December 2008	129,498	51,595	–	24,413	205,506
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
Analysed as current liabilities					
31 December 2009	46,579	6,794	–	5,110	58,483
31 December 2008	129,498	27,501	–	4,106	161,105
Analysed as non-current liabilities					
31 December 2009	48,725	29,269	–	37,056	115,050
31 December 2008	–	24,094	–	20,307	44,401
Total provision					
31 December 2009	95,304	36,063	–	42,166	173,533
31 December 2008	129,498	51,595	–	24,413	205,506

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 included €83.2m related to the 2009 Cost Reduction Programme; the balance related to the 2008 Early Retirement, Voluntary Severance and Migration Schemes. 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. Upon expiry of the lease any remaining balance is released or charged to the income statement.

(c) Maintenance contracts

A provision was made for the onerous element of contracts entered into as part of the disposal of the Group's maintenance activities and was fully utilised during 2008.

(d) 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:

	2009	2008
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	52,080	43,071
Deferred tax liability to be recovered after more than 12 months	(47,325)	(39,719)
Deferred tax asset	4,755	3,352

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

	2009	2008
	€'000	€'000
Deferred asset/(liability) at 1 January	3,352	(18,148)
Income statement credit	11,969	12,176
Tax (charged)/credited directly to equity	(10,566)	9,324
Deferred tax asset at 31 December	4,755	3,352

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
At 1 January 2008	4,401	21,417	25,818
Credited to the income statement	6,014	2,156	8,170
At 31 December 2008	10,415	23,573	33,988
Credited to the income statement	5,527	12,565	18,092
At 31 December 2009	15,942	36,138	52,080

Deferred tax liabilities

	Accelerated tax depreciation	Derivative financial instruments	Available- for-sale reserve	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2008	37,889	(2,641)	564	8,154	43,966
Charged/(credited) to the income statement	1,481	2,606	–	(8,093)	(4,006)
(Credited)/charged directly to equity	–	(9,048)	(369)	93	(9,324)
At 31 December 2008	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
At 31 December 2009	45,493	1,673	154	5	47,325

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

	2009	2008
	€'000	€'000
Fair value reserves in shareholders' equity		
– Cash flow hedging reserve	(10,756)	9,048
– Revaluation reserve on available-for-sale financial assets	41	369
Share-based payment reserve	149	(93)
	(10,566)	9,324

The Group is satisfied, based on expected future performance, 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

	2009	2008
	€'000	€'000
Authorised		
900,000,000 ordinary shares of €0.05 each	45,000	45,000
Issued and fully paid		
At 1 January	26,698	26,575
Issued during the period: 5,690,969 @ €0.05 (2008: 2,449,097 @ €0.05)	284	123
Cancelled during the period: 5,605,347 @ 0.05 (2008: nil)	(280)	–
At 31 December	26,702	26,698

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 2009 was 534,040,090 (31 December 2008: 533,954,468) of which 4,446,658 (31 December 2008: 4,208,327) were treasury shares.

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

	2009	2008
	€'000	€'000
Share premium		
At 1 January	506,847	502,108
Shares issued at premium	3,758	4,742
Issue of bonus shares	–	(3)
At 31 December	510,605	506,847
	2009	2008
	€'000	€'000
Capital conversion reserve fund		
At 1 January and 31 December	5,048	5,048
	2009	2008
	€'000	€'000
Capital redemption reserve fund		
At 1 January	343,516	343,516
Shares cancelled during the period	280	–
At 31 December	343,796	343,516

27 Share premium, capital conversion reserve fund and other reserves [continued]

	2009	2008
	€'000	€'000
Other reserves		
<i>Cash flow hedging reserve</i>		
At 1 January	(63,594)	(261)
Movement in the period	86,055	(72,381)
Deferred tax on movement in the period	(10,756)	9,048
At 31 December	11,705	(63,594)
<i>Available-for-sale reserve</i>		
At 1 January	3,242	3,953
Movement in the period	(2,060)	(1,080)
Deferred tax on movement in the period	41	369
At 31 December	1,223	3,242
<i>Treasury shares</i>		
At 1 January	(9,137)	(4,275)
Purchase of shares	(4,159)	(4,862)
Cancellation of shares	6,970	–
At 31 December	(6,326)	(9,137)
<i>Share-based payment reserve</i>		
At 1 January	1,081	439
Movement in the period	(1,189)	735
Deferred tax on movement in the period	149	(93)
At 31 December	41	1,081
Total other reserves	6,643	(68,408)

Long-Term Incentive Plan (“LTIP”)

In July 2007, arising from the review of the Group's compensation arrangements 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 will provide 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 Business Performance Measure 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.

For awards issued in 2009, the Remuneration Committee set the minimum performance under the Business Performance Measure as 10% compound growth in EBITDAR over the 3 year performance period. Conditional awards granted under the Company's LTIP in the year ended 31 December 2009 amounted to 4,552,775 ordinary shares (2008: 1,917,567). The share price was €0.71 (2008: €2.03) at the date of the award and fair value was determined to be €Nil (2008: €1.55).

Notes to the Consolidated Financial Statements [continued]

27 Share premium, capital conversion reserve fund and other reserves [continued]

Shares awarded under the Group's LTIP 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 shares awarded and stipulates that this methodology should be consistent with methodologies used for pricing of financial instruments. The expense of €Nil (2008: €735,000) 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:

	Expense in the consolidated income statement
2009 Long-Term Incentive Plan	
Staff costs	Nil

The 2009 awards will expire in 2011.

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:

	2009	2008
Risk free interest rate	2.83%	4.23%
Expected volatility	50.59%	35.00%
Dividend yield	0.00%	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 may 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 shares 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 the period 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 €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 during the period 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.

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 shares in May 2009 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 2009 the Trust held 4,446,658 ordinary shares.

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

28 Employee participation

Employee share ownership plan (“ESOP”)

Aer Lingus ESOP Trustee Limited (“ESOT”) acts as the sole trustee of the Aer Lingus Employee Share Ownership Plan (“ESOP”). The ESOP was established by a Trust Deed executed on 28 April 2003. Through a combination of an issue of shares to ESOT, the purchase of shares under an option granted at the time of the IPO, and its position as trustee of shares held by staff under an Approved Profit Sharing Scheme (“APSS”), ESOT held 12.47% of the issued share capital of the Company at 31 December 2009 (31 December 2008: 12.47%).

ESOT is also trustee of the Aer Lingus Approved Profit Sharing Scheme and, at 31 December 2009, 9,188,781 shares (1.72%) (31 December 2008: 9,397,900 shares (1.76%)) were held in the Company on behalf of beneficiaries. Certain of these shares are subject to a minimum holding period requirement specified by the Irish Revenue Commissioners.

Profit sharing scheme

At the time of the IPO a new profit sharing scheme was established whereby the Group agreed to transfer to ESOT, depending on the return on average shareholders’ funds, between 0% and 7.5% of the Group profit before taxation and exceptional items annually, commencing on 1 January 2006. The profit share is to be used by ESOT to pay any expenses and to repay all borrowings arising from the exercise of the option granted at the time of the IPO. No profit share was payable for 2009 or 2008 as a result of the losses incurred in those years.

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 (but are defined contribution schemes for accounting purposes). 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.

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 increased 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 2009.

The Group’s contributions charged for the year were €24.9m (2008: €29.3m), based on rates specified by the schemes’ rules. The actuarial reports are not available for public inspection.

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.

The Group and current eligible employees who have opted to become members of the funds 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 and, therefore, are accounted for as defined contribution schemes.

Notes to the Consolidated Financial Statements [continued]

30 Financial commitments**(a) Capital commitments**

At 31 December the Group had capital commitments as follows:

	2009	2008
	€'000	€'000
Contracted for but not provided		
– Aircraft and equipment	889,012	1,070,761
– Other	1,830	2,162
	890,842	1,072,923

(b) Lease commitments

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	–
	98,918	149,716	74

At 31 December 2008 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	5,360	49,428	73
Later than one year but no later than five years	16,356	97,437	–
Later than five years	29,493	5,619	–
	51,209	152,484	73

31 Related party transactions**Key management compensation**

	2009	2008
	€'000	€'000
Short-term employee benefits	1,688	2,049
Post employment benefits	254	332
Payments in lieu of notice	1,017	–
Other benefits	278	271
	3,237	2,652

In addition to the amounts above, in 2008 an amount was charged to the income statement in relation to the estimated cost of shares, which could vest under the 2008 LTIP. In respect of key management included above, a total amount of €424,000 was charged. There was no charge to the income statement in 2009 in relation to the estimated cost of shares which could vest under the 2009 LTIP in respect of key management included above.

An amount of €46,337 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.

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

32 Cash used in operations

	2009	2008
	€'000	€'000
Loss before tax	(154,846)	(122,058)
Adjustments for:		
– Depreciation and amortisation	82,674	71,865
– Net movements in provisions for liabilities and charges	(116,907)	(10,722)
– Net fair value losses on derivative financial instruments	704	945
– Share options and awards expense	46	–
– Gain recognised on assets received in-kind	(1,500)	–
– Finance income	(36,900)	(60,860)
– Finance expense	22,098	22,018
– Net exceptional items	88,630	140,888
– Other losses/(gains) – net	177	(8,796)
Changes in working capital		
– Inventories	(302)	360
– Trade and other receivables	3,265	(16,329)
– Trade and other payables	(55,252)	(25,938)
Cash used in operations	(168,113)	(8,627)

33 Financial assets – Company**Investment in subsidiaries**

	2009	2008
	€'000	€'000
Cost		
At 1 January and at 31 December	109,696	109,696

34 Trade and other receivables – Company

	2009	2008
	€'000	€'000
Amounts due from subsidiary undertakings	807,722	810,650

The fair value of trade and other receivables equate to their book value at 31 December 2009 and 2008. The maximum exposure to credit risk is the carrying value of trade and other receivables above. There was no impairment of these trade and other receivables at 31 December 2009 and 2008.

35 Events after the reporting period

In October 2009, the Group launched its Cost Reduction Programme (“Greenfield”), which targeted annualised cost savings of approximately €97m over the period to 2012. On 5 March 2010, the Group was notified that the Greenfield proposals were rejected in a staff ballot of cabin crew represented by IMPACT. The Group was separately notified that the four other staff ballots conducted by Pilots (IALPA), Middle Management (IAESA), SIPTU (Ground Operations/Support areas/certain cabin crew) and Maintenance Staff (Craft Union) had supported the Greenfield proposals. On 9 March 2010, the Group announced that it would immediately commence the implementation of those elements of the Greenfield programme that were agreed with the four union groups that supported the proposals. On 26 March 2010 the Group was notified that the Greenfield proposals were supported in a re-ballot of cabin crew staff represented by IMPACT. The Group then commenced the implementation of the Greenfield programme with cabin crew staff.

In April 2010, a volcanic eruption in Iceland caused severe disruption to European air traffic and caused the cancellation of more than 1,500 Aer Lingus flights. The current estimate of the impact on the Group's profits is approximately €20 million but the long-term impact on customer confidence is unclear.

In April 2010, the Group entered into a finance lease arrangement for the purchase of an Airbus A330 aircraft, resulting in an increase in finance lease obligations of €58.5m.

Shareholder Information

2010 financial calendar

Annual General Meeting	18 June 2010
2010 H1 period ends	30 June 2010
2010 H1 results	August 2010
2010 FY ends	31 December 2010

Share price data

	€
Share price movement during 2009	
– High	1.62
– Low	0.45
Share price at 31 December 2009	0.64
Market capitalisation at 31 December 2009	341.8m
Share price at 27 April 2010	0.73
Market capitalisation at 27 April 2010	389.8m

Shareholder analysis at 27 April 2010

Range of shares held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	508,946,757	95.30	78	2.01
100,001 – 250,000	4,514,541	0.85	28	0.72
10,001 – 100,000	9,705,072	1.82	382	9.84
Up to 10,000	10,873,720	2.03	3,394	87.43
Total	534,040,090	100.00	3,882	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: AERLI, AERLL

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 2010 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, 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:

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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
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T: +353 1 810 2400
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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.

Company officers and advisors

Directors

Colm Barrington (Chairman)
Christoph Mueller (Chief Executive Officer)
Laurence Crowley (Senior Independent Director)
David Begg (Non-executive Director)
Montie Brewer (Non-executive Director)
Leslie Buckley (Non-executive Director)
Thomas Corcoran (Non-executive Director)
Ivor Fitzpatrick (Non-executive Director)
Danuta Gray (Non-executive Director)
Francis Hackett (Non-executive Director)
Colin Hunt (Non-executive Director)
Michael Johns (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

Brokers

Goodbody Corporate Finance
Ballsbridge Park
Ballsbridge
Dublin 4
Ireland

Operating and Financial Statistics

For the year ended 31 December 2009

	2009	2008	Change
Long haul			
Number of routes flown	9	11	(18.2%)
Number of sectors flown (flights)	4,884	5,939	(17.8%)
Average sector length (in kilometres)	5,472	5,764	(5.1%)
Number of passengers (in thousands)	1,077	1,264	(14.8%)
Average fare (including airport charges/taxes) (in €)	255.70	303.87	(15.9%)
Utilisation (average block hours per aircraft per day)	11.6	14.3	(18.9%)
RPKs (in millions)	5,854	7,168	(18.3%)
AKS (in millions)	8,008	10,042	(20.3%)
Passenger load factor (flown RPKs per ASKs)	73.1%	71.4%	1.7pt
Average number of aircraft	8.5	9.0	(5.6%)
Scheduled cargo tonnes	18,815	23,408	(19.6%)
Short haul			
Number of routes flown	107	95	12.6%
Number of sectors flown (flights)	69,661	66,831	4.2%
Average sector length (in kilometres)	1,048	1,017	3.0%
Number of passengers (in thousands)	9,305	8,737	6.5%
Average fare (including airport charges/taxes) (in €)	77.10	87.57	(12.0%)
Utilisation (average block hours per aircraft per day)	10.2	10.4	(1.9%)
RPKs (in millions)	9,965	9,109	9.4%
AKS (in millions)	13,220	12,328	7.2%
Passenger load factor (flown RPKs per ASKs)	75.4%	73.9%	1.5pt
Average number of aircraft	35.3	32.6	8.3%
Scheduled cargo tonnes	6,718	4,536	48.1%

Aer Lingus 