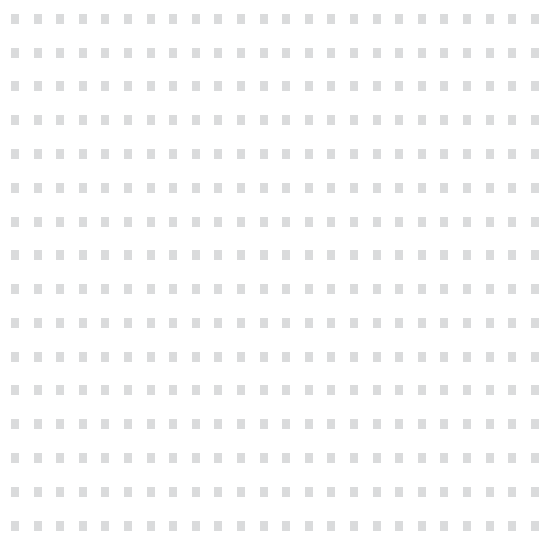




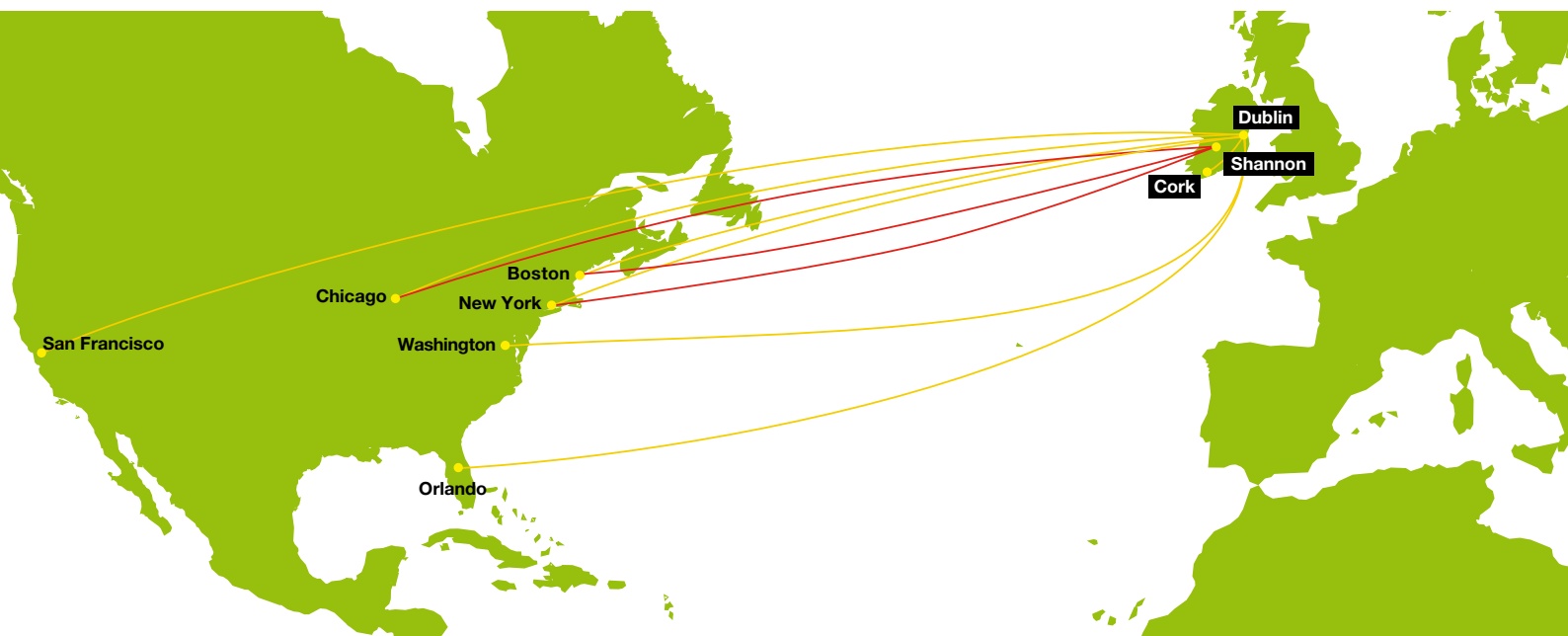
Annual Report 2008



Route Network



USA to/from Dublin, Cork and Shannon



Europe to/from Dublin



Europe to/from Belfast, Cork and Shannon to/from Gatwick





Financial Highlights

For the year ended 31 December 2008

		2008	2007	Change
Results				
Revenue	€m	1,357.4	1,284.9	5.3%
EBITDAR ¹	€m	105.5	208.3	(49.4%)
<i>Operating (loss)/profit before employee profit share and net exceptional items</i>				
	€m	(17.6)	88.5	(119.9%)
Employee profit share	€m	-	(9.8)	(100.0%)
Net finance income	€m	38.8	42.6	(8.9%)
<i>Pre-tax profit before net exceptional items</i>	€m	21.2	131.1	(83.8%)
Net exceptional items	€m	(140.9)	3.5	Nm
Income tax credit/(expense)	€m	11.9	(19.5)	(161.0%)
<i>(Loss)/profit for the year</i>	€m	(107.8)	105.3	(202.4%)
Total equity	€m	772.7	943.9	(18.1%)
Earnings per share	€cent	(20.4)	19.9	(202.5%)
Net cash ⁴	€m	653.9	757.0	(13.6%)
Key financial statistics				
Passenger/ancillary revenue per RPK	€cent/RPK	8.0	8.3	(4.1%)
Unit cost, excluding fuel ²	€cent/ASK	3.80	4.19	(10.2%)
Unit cost, including fuel	€cent/ASK	5.60	5.48	2.1%
EBITDAR margin	%	7.8%	16.2%	(8.4pt)
Operating margin	%	(1.3%)	6.9%	(8.2pt)
Return on capital (EBITDAR/Replacement value)	%	9.5%	19.6%	(10.1pt)
Key operating statistics³				
Passengers carried	000	10,001	9,305	7.5%
Revenue passenger kilometres (RPK)	m	16,277	14,807	9.9%
Available seat kilometres (ASK)	m	22,370	19,633	13.9%
Passenger load factor	%	72.8%	75.4%	(2.6pt)

¹ Earnings before employee profit share, interest, tax, depreciation, amortisation, employee profit share and aircraft rentals

² Unit cost is based on total operating costs, excluding depreciation, amortisation, aircraft rentals, employee profit share and fuel, divided by available seat kilometres

³ Key operating statistics relate to scheduled passenger operations

⁴ Net cash is defined as cash and cash equivalents, deposits and available-for-sale financial assets/loans and receivables, less borrowings

Nm Not meaningful

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Chairman's Review



2008 was an exceptionally challenging year for the worldwide aviation industry. For Aer Lingus, a combination of weaker consumer demand, lower dollar and sterling revenues and increased competition across the network put sustained and significant pressure on our business. Meanwhile, record high fuel prices had a significant negative impact on our costs.

The financial performance for the year reflected this environment. While total revenue increased by 5.6% to €1,357.4 million, the company reported an operating loss before exceptional items of €17.6 million and a small profit before exceptional items of €21.2 million. Exceptional costs of €140.9 million – mainly compensation for staff restructuring – and a tax credit of €11.9 million, together turned this net profit into a loss for the year of €107.8 million. This compares to a profit of €105.3 million in 2007. The basic and diluted loss per share was 20.4 cent as compared to earnings per share of 19.9 cent in 2007.

Return on capital in 2008 was 9.5% as compared to 19.6% in 2007. Our balance sheet is strong, with net cash of €653.9 million at year-end. While 2008 was a tough year, Aer Lingus remains a strong company.

Total passenger capacity was increased by 13.9% in 2008. However, as a result of intense competition and weaker consumer demand, passenger volume increased by only 7.5%. The resulting passenger load factor of 72.8% compared to 75.4% in 2007. However, the weaker demand and currency situations resulted in a 4.6% fall in average fares. Encouragingly, ancillary revenues performed strongly, rising by 37.7% to €149.7 million, mainly because of a 28.1% increase in the ancillary spend of each passenger, to nearly €15.

2008 Key points

- **Pre-tax profit before exceptional costs of €21.2 million, after an operating loss of €17.6 million.**
- **A net loss after exceptional items of €107.8 million, reflecting exceptional costs of €140.9 million related mainly to the staff cost saving agreement completed prior to year end.**
- **Continued revenue growth, reflecting modest passenger growth, reduced passenger fares and weaker non-euro currencies and strong growth in ancillary revenues.**



LONDON
FARO
BRUSSELS
BERLIN
PARIS
MADRID





Aer Lingus in partnership with United Airlines launched a codeshare agreement with a new daily service between Washington and Madrid from summer 2010.

- **Aircraft utilisation up 3.0% on short haul and up 2.1% on long haul.**
- **Increased fleet size and aircraft utilisation resulted in capacity increases, measured in ASKs, of 14.7% on short haul and 13.0% on long haul.**
- **Unprecedented high fuel prices resulting in a €148 million (58.4%) increase in fuel costs.**
- **Substantive cost saving agreement with staff, which will help the Group deliver annualised cost savings of €52 million. A net exceptional cost of €117.5 million is included in 2008 for this programme.**
- **New third party maintenance contracts are producing annualised savings of over €20 million and additional annual non-staff cost savings of over €24 million are targeted for 2009.**
- **An extensive code share agreement was completed with United Airlines and a joint operation with them from Washington D.C. to Madrid will commence in 2010.**
- **A web to web booking model was rolled out with JetBlue**
- **Investment in our long haul product was made through the refurbishment of existing A330 aircraft.**

The year was also marked by positive progress at our Belfast base and the announcement of a new base at London Gatwick, starting in April 2009. As we enter our second year at Belfast our load factors are in line with our mature bases and the overall performance is improving in line with expectations. The opening of the London Gatwick base is a significant development for the company as it will be the first international base outside of the island of Ireland. Initially we have four A320 aircraft at Gatwick operating on eight routes, six of which will be between Gatwick and cities in continental Europe. This initiative will enable us to establish an important foothold in one of the biggest aviation markets in the world, and will allow us reduce our dependence on the Irish market.

Our long haul network came under significant pressure during the year as fuel prices soared and demand and the US dollar weakened. We took a number of decisions to rationalise our fleet so as to take account of this challenging operational environment. We deferred an A330 delivery from September 2009 to June 2010, reducing the long haul fleet from nine to eight units for the summer of 2009. In November we also suspended our Dublin to Los Angeles route. We will continue to examine the profitability and viability of each route and our fleet requirements in the light of current and projected market conditions and our need to improve performance and to conserve our cash resources.

We are bringing our overall long haul product specifications into line with our new aircraft. An A330 interior retrofitting programme is now well underway. From the summer of 2009 seven of our long haul aircraft will provide an improved product, including new seating and state of the art in-flight entertainment.

During the year we made further progress with our partner JetBlue, adding Boston to New York as connecting points for Aer Lingus customers wishing to travel beyond these gateways. The new code share partnership with United Airlines also got off to an encouraging start, prompting both partners to evaluate closer ties in the future. In January, Aer Lingus and United announced the launch of a daily service between Washington and Madrid from the summer of 2010, to be operated by an Aer Lingus aircraft and capitalising on the opportunities provided by Open Skies. This is significant as it is the first time that a European and a US carrier have joined forces to launch such a service. We are evaluating the potential for further joint route developments and closer ties with United in the future.

In 2008 further progress was made in re-aligning the company's cost base to the new realities of the marketplace. Agreement was reached with employee unions on achieving a targeted €50 million in annual saving, starting in 2009. An additional €24 million was targeted in non-staff cost savings and, following an intensive tendering process, we selected a number of new maintenance suppliers who are providing us with real benefits and savings. These initiatives illustrate our continuing need and drive to achieve cost savings across the business.

However, Aer Lingus' unit costs are still high compared to some of our competitors and there is an ongoing need to make the airline more efficient. This will continue to be a management priority.

While we faced significant challenges in 2008, our staff continued to deliver a quality product to our customers every day. One of the main reasons our customers prefer to fly with us is because of the quality of our people. The tremendous loyalty and commitment shown by Aer Lingus staff, combined with their care for our passengers, sets us apart from the rest. In 2008 this commitment was recognised by several external parties, with the Aer Lingus In-flight sales team picking up a number of accolades at the *International Sales Person of the Year* awards, including the

prestigious "Airline of the Year" award, while our Irish Sales team picked up the "Airline of the Year" award at the *Irish Travel Trade News Awards*. In addition, we have recently been voted 'Best Short Haul Airline' and 'Best Long Haul Airline' at the Irish Consumer Travel Awards, 2009. Well done to all.

Outlook

It is clear that consumer confidence in our key markets is expected to remain low during 2009. In particular the Irish market, which has been the bedrock of Aer Lingus' business, has been particularly hard hit by the rapid decline in our economy and the significant increases in unemployment. These conditions have been exacerbated by the imposition of a tax of €10 per departing passenger and by the recent supplementary budget in Ireland. These factors will put continued pressure on our ability to maintain our revenues in the current year.

While we expect the trading environment in 2009 to be more challenging than in 2008, our business model and our market penetration remain strong. We expect to have a materially larger operating loss in 2009, primarily as a result of the continuing decline in fares necessary to maintain volume. The benefits of our initiatives on cost reduction, both in staff and non-staff costs, will underpin our performance and will be vital for our future. And we realise that more is required. Against the backdrop of a severe deterioration in operating conditions, the Board is taking the steps necessary to safeguard the long term viability of the Group. In addition to management changes recently announced, the Board remains resolute in its objective of reducing operating costs and retaining a strong capital structure. Ongoing cost reduction is critical for the viability of Aer Lingus in the current difficult market environment, and the Board is reviewing the range of options to deliver a sustained reduction in operating costs to align its cost base with the Group's current and expected revenue stream.

Since the IPO in 2006, we have focused on transforming Aer Lingus from a legacy Irish business to a modern international airline. We have made significant progress towards this objective with the establishment of two international bases and a range of long-haul partnerships, which include Aer Lingus' first non-Irish routes. While Ireland is likely to remain a core element of the Aer

SHORT HAUL





Lingus operating platform, we believe that diversifying our revenue streams beyond the Irish market is a key to the long-term success of this business.

Board, management, conclusion

I would like to thank the members of the Board for their work and commitment throughout the year, especially during the second hostile bid from Ryanair in December 2008. We believe that both the presence of Ryanair on our shareholder register, and its ongoing attempts to disrupt Aer Lingus through hostile bids, are significantly detrimental to the interests of both companies.

I am pleased to welcome Laurence Crowley, who joined the Board in January 2009 and agreed to be our Senior Independent Director. Laurence's experience, wisdom and enthusiasm will be a great asset to Aer Lingus and all of its shareholders.

During the year, Greg O'Sullivan resigned as Finance Director and as a Director. The Board would like to thank Greg for his contribution to Aer Lingus over many years. In August 2008, Sean Coyle joined as Chief Financial Officer and as a Board Director.

During the year John Sharman resigned as Chairman. I would like to recognise John's contribution to Aer Lingus over nearly six years, both as a Director and as Chairman and express the appreciation of his board colleagues for his leadership as Chairman. Among his many achievements, John steered Aer Lingus through its very complex IPO and set the company on course to be a successful and vibrant international airline, focussed on maximising value for all its shareholders.

In December 2008, Sean Fitzpatrick resigned from the Board. Sean served Aer Lingus extremely well and had a significant and positive influence on the company both before and after the IPO.

This year, Chris Wall's term as a Director was completed and he left the Board. Chris was an extremely supportive Director. Aer Lingus and its stakeholders are deeply indebted to him.

In April 2009, Dermot Mannion resigned as Chief Executive and a Director after nearly four years with the company. The Board would like to thank Dermot for his contribution to Aer Lingus over the last four years and to record its appreciation for his loyalty and dedication to the Group over this period. We wish him well.

Aer Lingus is currently conducting a global search for a new Chief Executive Officer and I have assumed executive responsibility for the Group until a new CEO is appointed.

I want also to thank and acknowledge the management team and all our staff for their dedication and hard work in 2008. In a very difficult environment they continued to deliver the Aer Lingus brand - low fares and superior service - to our customers every day with both confidence and dedication. Their efforts are greatly appreciated.

While the current commercial outlook is challenging, Aer Lingus can face it with confidence. We have the brand, the product, the people, the experience, the resolve and the balance sheet strength to weather the current difficult times. The measures that we have taken and continue to take will put Aer Lingus in a strong position to emerge profitably when commercial and financial conditions improve. We aim to be well positioned to add significant value to all our shareholders when such conditions allow.

Colm Barrington
CHAIRMAN

Operating & Financial Review



"Aer Lingus, very nice staff. On time. Classy. They are very clean, everything you'd want from an airline. I fly with them every time! Bad points, nothing."

2008 has been a very difficult year for the international airline industry as a whole. The industry experienced an unprecedented increase in fuel prices in the first half of 2008 and extreme volatility in fuel prices in the second half. This unprecedented fuel pricing environment, combined with the most severe economic downturn of recent years, severely impacted the performance of the industry generally and Aer Lingus specifically. For 2008, Aer Lingus is reporting an operating loss before employee profit share and net exceptional items of €17.6m (2007: profit of €88.5m) and a pre-tax profit before exceptionals of €21.2m¹ (2007: profit of €131.1m). At year end, as a result of the loss for the year (€107.8m), and a decrease in other reserves (€63.4m), shareholders' funds had decreased by €171.2m to €772.7m (2007: €943.9m).

Revenue

Total revenue rose by 5.6% to €1,357.4m. Passenger revenue grew by 2.5% to €1,151.6m, with a total of 10,000,884 passengers carried in 2008, up by 696,205 (7.5%) on 2007. The total passenger load factor was 72.8%, down from 75.4% in 2007, driven by a capacity increase of 13.9% year on year. Average fares decreased by 4.6% overall, falling by 6.4% on short-haul and increasing by 2.6% on long haul over 2007 levels due to the increased fuel surcharge imposed during the year. Revenue per passenger (fare yield plus ancillary revenue) dropped by 1.7% versus 2007.

Short haul

Short haul capacity, measured in available seat kilometres (ASKs), grew by 14.7% due to the full year effect of the delivery of four A320's in 2007, and the addition of one A320 in June 2008, bringing the short haul fleet to 33 (27 A320, 6 A321). Capacity utilisation, measured by revenue passenger kilometres (RPKs), increased relatively in line with capacity, increasing by 13.6%. Aircraft utilisation continued to increase, with average daily block hours utilisation increasing to 10.4, an increase of 3.0% on 2007.

Total short haul passengers carried increased by 8.3% to 8,736,840 while the average short haul fare decreased by 6.4% or €6.02 to €87.75. The reduction in short haul fares was partly offset by the growth in ancillary revenue per passenger of €3.29 or 28.2%.

Three additional A320s joined the fleet in March and April 2009, on operating leases, to operate on the new London Gatwick base. We will reduce the Dublin based fleet by one A320 due to the weakening of demand ex-Ireland.

There are orders placed for a further four A320s for delivery between 2010 and 2011. These will bring the total short haul fleet to 40 aircraft. Short haul capacity, measured in ASKs, will grow by 9.4% in 2009 versus 2008. Further consideration is being given to Winter 2009 capacity in light of the current trading environment.

Long haul

There was a significant increase in long haul capacity in the first half of 2008 due to the addition in mid 2007 of two long haul aircraft, bringing the long haul fleet to nine A330s. As a result of these new aircraft, long haul capacity, measured in ASKs, grew by 13.0%. Capacity utilisation, measured by RPKs, did not match capacity increases, growing at 5.6%. Total long haul passengers carried increased by 2.3% to 1,264,044 while the average long haul fare increased by 2.6% to €304.49. Aircraft utilisation continued to increase, with average daily block hours utilisation increasing to 14.3, an increase of 2.1% on 2007.

Capacity in 2009 will reduce compared to 2008 levels due to the ongoing fleet refurbishment program over the Winter 08/09 period, and the suspension of the Los Angeles route. In addition the reduction of the long haul fleet from nine aircraft to eight aircraft means that long haul capacity, measured in ASKs, for 2009 will be 13.6% below 2008. Further consideration is being given to Winter 2009 capacity in light of the current trading environment.

Ancillary revenue

Ancillary revenue continued its significant growth pattern in 2008. This category mainly comprises sales on board, booking fees, baggage and excess baggage charges, seat selection fees and car hire, hotel and insurance commissions. Total ancillary revenue grew by 37.7% to €149.7m (2007: €108.7m). This growth was also achieved in ancillary revenue spend per passenger, which grew by 28.2% to €14.97 (2007: €11.68).

Cargo

During 2008, Aer Lingus continued to carry cargo on long haul routes, and on a small number of short haul routes where the aircraft turnaround times permit. Total cargo revenue increased by 5.5% to €50.3m (2007: €47.7m). This was primarily driven by increases in fuel surcharge revenue, which increased by 50.0% year on year. Average yields reduced by 8.0%, while tonnes decreased by 3.1%. Short haul tonnage continued to grow, reaching 4,536 (an increase of 34.8%), while long haul tonnage dropped marginally, by 1.4%, to 23,408 tonnes.

¹ In the defence document issued on 22 December 2008, the Group forecast a Profit in 2008 (Profit being defined as reported profit for the year, after finance income, finance costs and income tax but before exceptional items). Under that Profit definition, the 2008 result was €33.1m.



Cabin crew member & actor Byron Kumbula who starred in the Oscar nominated Irish short film "New boy".



Aer Lingus award-winning cabin crew, Claire Sutton from Dublin, Karen Nicholl from Belfast, Niamh O Leary from Cork, celebrate the airline's win, scooping top prize "Airline of the Year", at the iSPY Awards



Cabin crew member, Sinead Mulvey, who will represent Ireland at the Eurovision Song Contest in Moscow in May 2009

Operating costs

In 2008, the Group made significant progress on cost reduction initiatives, particularly in relation to new agreements on maintenance and staff costs, which will deliver savings in 2009 and beyond. In 2008, cash operating unit cost* and excluding fuel continued to fall, dropping from 4.19c to 3.80c per available seat kilometre. Total operating costs* increased by 14.9% to €1,375.0m, primarily as a result of higher oil prices and increased operations.

The largest increase was in fuel costs, rising by €148.0m (58.4%) to €401.3m. Fuel represented 29.2% of operating costs* in 2008, up from 21.2% in 2007.

Staff costs (pre-exceptional), which represent 24.3% of operating costs* (2007: 25.7%), rose by 8.8% to €334.3m, while the average numbers employed increased from 3,905 in 2007 to 4,035 in 2008.

Airport charges represent 17.7% of operating costs* (2007: 18.5%) and increased by 9.7% through a combination of higher passenger volumes and increased charges by the airports served.

During the year, the Group concluded new contracts with a number of world-class suppliers on the provision of maintenance services. This resulted in the reduction in maintenance cost provisions to reflect the new contracts agreed in the year. Maintenance costs decreased from €82.6m in 2007 to €74.4m in 2008.

Operating loss

Operating loss* was €17.6m in 2008 (2007: profit of €88.5m).

Employee profit share

There was no charge for employee profit share in 2008, as minimum return targets were not met. A charge of €9.8m was made in respect of the employee profit share for 2007.

* stated before employee profit share and net exceptional items



Pictured at the American Ambassador's Residence on the occasion of the Aer Lingus 50th anniversary of transatlantic flying were Minister Noel Dempsey, TD, former Aer Lingus CEO Dermot Mannion, Cabin Crew member Alison Knightly, and American Ambassador Thomas C Foley.

Finance income and costs

Finance income fell by 6.6% to €60.9m with the decrease driven by reducing interest rates. While borrowings increased by 47.3% in the year, interest payable decreased by 2.5% to €22.0m again due to reducing interest rates. The Group's treasury division continues to successfully manage funds raised under the Initial Public Offering to finance the expansion and replacement of Aer Lingus' aircraft fleet. This forms a very significant part of the treasury division's activities and will continue to do so over the next four years through 2012. In addition, this division also provides essential day-to-day treasury and financial services to the airline business.

Net exceptional items

Net exceptional losses of €140.9m were recorded in 2008. This consisted of €117.5m in relation to staff cost restructuring, €5.9m relating to the defence of a takeover bid by Ryanair Holdings plc and €17.5m compensation payments under the Programme for Continuous Improvement.

Taxation

The taxation credit was €11.9m in 2008 (2007: charge of €19.5m).

Loss per share

The loss attributable to shareholders amounted to €107.8m in 2008 (2007: profit of €105.3m). Loss per share in 2008 was 20.4c (2007: earnings per share of 19.9c).

Balance sheet

The Group continues to maintain a strong balance sheet position, with net cash of €653.9m. Total equity decreased by €171.2m during the year as a result of the loss for the year (€107.8m) and a decrease in other reserves (€63.4m). No further transfers to or from reserves are proposed by the Directors.



"Prague - Dublin and back, enjoyable flight, excellent cabin crew and liked being able to buy a newspaper on board. Excellent prices and good service, more than happy to fly with them again."

Review of cash flow

Cash generated from operations decreased by €53.9m as a result of the loss recorded in the year and a deterioration in working capital. There was a net inflow as a result of financing activities of €152.3m, driven by financing received for aircraft delivered in 2007 of €186.1m, offset somewhat by repayments of borrowings totalling €38.7m. There was a net outflow of €117.4m in relation to investing activities mainly due to capital expenditure. Cash flow from capital expenditure during the year totalled €120.1m, of which €109.1m related to flight equipment. This primarily relates to aircraft deposits for future deliveries, capitalised maintenance costs and costs of the A330 retrofit programme.

Net cash has reduced to €653.9m (2006: €757.0m) as a result of operating losses and significant capital expenditure. In accordance with the amendment to IAS 39 *Reclassification of Financial Assets*, issued in October 2008, the Group decided to reclassify as loans and receivables, financial assets that had previously been classified as available-for-sale, with effect from 1 July 2008. This resulted in a reduction of net cash of €9.6m at 31 December 2008.

Fuel and currency hedging

To achieve greater certainty on costs we manage our exposure to fluctuations in the price of fuel and foreign currency through hedging. At 31 December 2008, our estimated fuel requirements for 2009 and 2010 were hedged as follows:

	Full year 2009	Full year 2010
% hedged	72%	22%
Average price per tonne of jet fuel	\$911	\$876

At 28 February 2009, our estimated fuel requirements for the remainder of 2009 were hedged as follows:

	10 months to 31 December 2009	Full year 2010
% hedged	72%	22%
Average price per tonne of jet fuel	\$856	\$876

Our major foreign currency exposure is to the US dollar. At 31 December 2008, our estimated US dollar trading requirements for 2009 were fully hedged at an average rate of €1=\$1.48. In addition, we had purchased 72% and 23% of our estimated US dollar trading requirements for 2010 and 2011 at €1=\$1.48 and \$1.42 respectively.

At 28 February 2009, we had fully hedged our estimated trading requirements for US dollars for the ten months to 31 December 2009 at €1=\$1.48. In addition, our forward purchases of US dollars comprised 76% of the estimated trading requirements for 2010 at a rate of €1=\$1.48, and 24% of the estimated trading requirement for 2011 at €1=\$1.42.

Outlook

The airline industry is facing an exceptionally tough trading environment which has progressively deteriorated this year. The industry has seen a rapid deterioration in the prospects for many major carriers, and this is likely to be exacerbated by current concerns about another negative impact on demand due to swine flu. Falling consumer demand in Aer Lingus' key markets is, and will continue to contribute to sustained and significant fare pressure. Further pressures have been put on demand from Ireland through the imposition of a tax of €10 per departing passenger and by the recent supplementary budget. This dynamic and very challenging environment contributes to a highly uncertain outlook.

Aer Lingus expects the average fare trend for full year 2009 will be worse than previously expected and, consequently, it is currently expected that the operating loss for the 2009 full year will be materially larger than 2008. Ongoing cost reduction is critical for the viability of Aer Lingus in the current difficult market environment, and the Board is reviewing the range of options to deliver a sustained reduction in operating costs to align its cost base with the Group's current and expected revenue stream.



CHICAGO

Corporate Social Responsibility Statement

Environment

Aer Lingus acknowledges that its operations have an impact on the environment. Balancing the protection of the environment with people's need to travel is essential for both ethical and business reasons. Controlling fuel consumption is also a business priority. In 2008, fuel costs represented 29.2% 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% of the world's CO₂ emissions. European aviation accounts for 0.5% of this total. While aviation has an environmental effect, the airline industry as a whole is taking a great many practical measures to limit emissions. The challenge for the Group 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 main airport in Dublin, and also the Association of European Airlines (AEA) Environment Group. In conjunction with its members, including Aer Lingus, the AEA has developed an emissions containment policy. This is based on four pillars, each designed to reduce unnecessary fuel consumption: technological progress, operational measures, infrastructure improvement and market-based solutions.

The Group continues to research and implement new strategies and programmes to reduce its environmental impact – including aircraft and engine condition monitoring and maintenance, waste management, and, most importantly, continued investment in new technologies and new aircraft. Aer Lingus' fuel efficiency has improved significantly in the last 20 years, with the average fuel consumption per revenue passenger kilometre reducing by 49% since 1991. This in turn reduces the emissions per revenue passenger kilometre.

Emissions trading is one of the economic instruments that can be used to address climate change. Today emissions trading is not applicable to the aviation sector, except in the United Kingdom through a voluntary scheme. On 8 July 2008



"Good value flights, good service, what more could I ask for."

ONLINE AER LINGUS TRIP REVIEW: 21 May 2008





Aer Lingus provides supports to the Special Olympics – Team Ireland's athletes and volunteers

the European Parliament voted in favour of including aviation emissions in the European Union's (EU) Emission Trading Scheme (ETS) as of 2012. The ETS is one of the mechanisms whereby the EU seeks to meet its emission reduction targets under the Kyoto Protocol. The directive will require all flights both intra EU and into and out of EU airspace to participate in a carbon cap-and-trade scheme.

The directive, which was formally approved by Council on 24 October 2008, entered into force in February 2009 and member states have 12 months to put it into national legislation. In 2009 airlines will be required to submit monitoring plans for emissions to the appropriate authority in their member state.

Included in the directive also are the following:

- Emissions reduction targets will be based on average annual emissions between 2004-2006 and will be cut by 3% in 2012, and then by 5% from 2013 onwards, subject to review.
- 85% of emissions allowances will be allocated to airlines for free with 15% to be auctioned off.
- The use of the revenues received from the auctioning process will be determined by the member states.

If actual emissions are anticipated to exceed their allowances, airlines must either buy additional emissions allowances if available in the market, or reduce their emissions by investing in more efficient technologies or operational practices.

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. However, we believe that there are a number of adjustments needed to the current proposals to fulfil this aim. In particular, we believe that the scheme must:

- use accurate data for the baseline, which should be moved as close as possible to the trading period, as for other sectors. The current proposal is to use 2004-2006 operating data as the basis for assignment of free emissions. In the first year of operation this data will be 6-8 years out of date and this will penalise airlines that have expanded operations in the intervening period. In Aer Lingus' case, all expansion in this period has been achieved through the addition of new aircraft, which are more environmentally friendly. A baseline of 2007-2009 would be more appropriate than 2004-2006.
- limit the scheme to carbon dioxide as the level of contribution to climate change of other gases from aviation remains unproven.
- as airlines would be net buyers of allowances, it is critical that we have the widest possible access to other sectors' markets in an open ETS.

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

Another key success factor in an ETS is that it should be the single system to regulate airlines' environmental impact. Airlines should not be penalised on the double, with further taxes and charges added on top of the cost of the ETS.

We take our environmental responsibilities very seriously and are committed to combating climate change through a focused and comprehensive multi-action strategy. 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.

Reducing fuel burn and Emissions

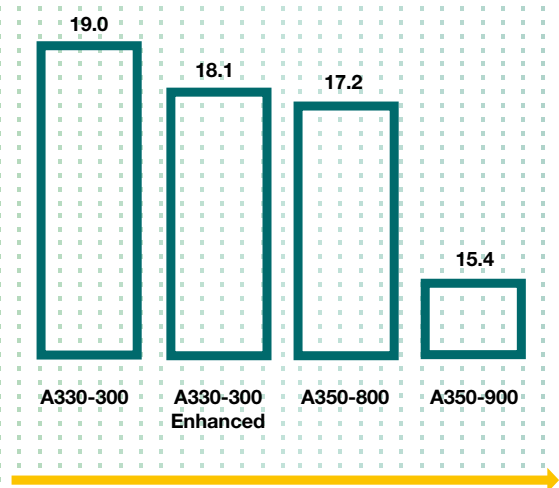


Fig 1 Reducing fuel consumption – new aircraft fuel burn – kilos of fuel, per seat, per flight hour

Fleet: The Group is reducing the climate change impact of its fleet through investment 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 contains 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. Aer Lingus currently operates a single aircraft type in its short haul fleet, the Airbus A320/A321, with an average age of just 5.1 years. One additional new aircraft was delivered in 2008 and an order for a further three aircraft was placed in early 2009.

The long haul fleet also operates a single aircraft type, Airbus A330, with an average age of 9.6 years. The Group has agreed a contract with Airbus to purchase a further 12 long haul aircraft for delivery between 2009 and 2016. The 12 aircraft are a mixture of replacement and incremental aircraft. By 2016 all aircraft delivered prior to 2007 are scheduled to have been replaced. These new aircraft and the newer engine technologies that go with them will further improve Aer Lingus' overall fuel efficiency and environmental impact. Figure 1 identifies the further reductions in fuel burn and emissions that will arise from the new long haul aircraft, in particular the next generation A350s, due to be delivered from 2014 onwards. Environmental performance was one of the key elements taken into account in the evaluation and procurement decision.

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 2008 the Airline reviewed routes to ensure the most optimum routes are being flown and also reduced the speed of the aircraft to save fuel and thus reduce emissions.

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

Average specific fuel consumption (litres per 100 revenue passenger kilometres)

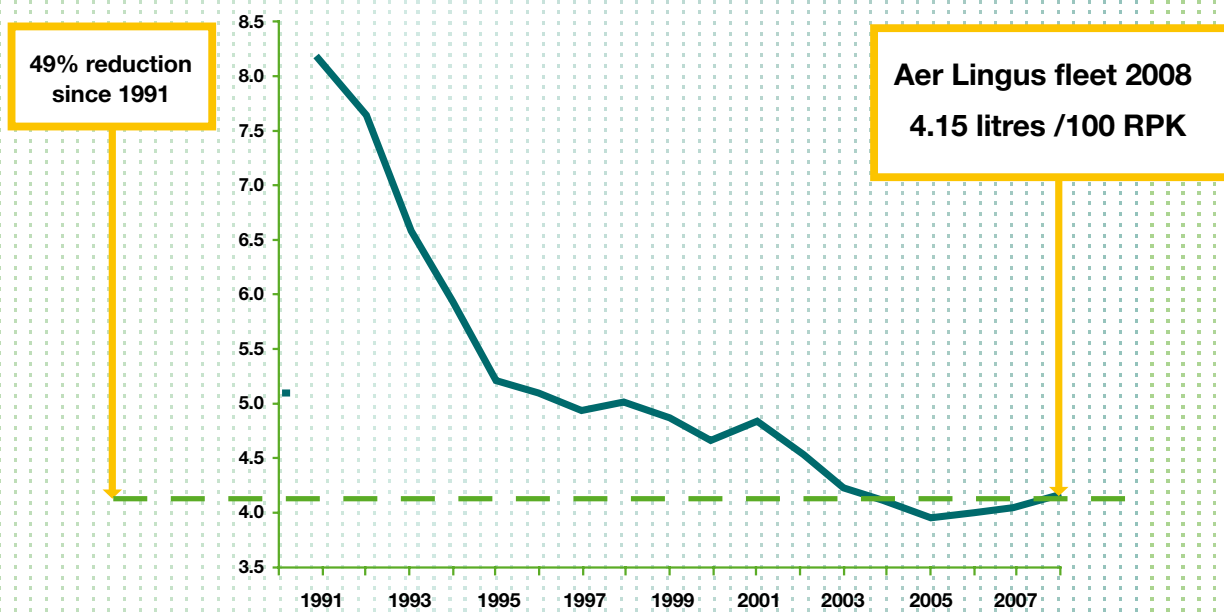


Fig 2

and local air quality, and our modern fleet contributes to efficiencies in these emissions.

30% of our ground equipment uses 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.

Figure 2 shows the significant reduction in average specific fuel consumption over the past two decades – a drop of 49% 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.

Waste management: 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. Aer Lingus complies fully with the Waste Electrical and Electronic Equipment Directive (WEEE) through a programme to segregate these items from the waste process and implemented this programme before it was required by regulations.



Pictured: Former Aer Lingus CEO, Dermot Mannon and members of the Aer Lingus Sales Team celebrate the airline's award "Best Airline to Europe" by the Irish Travel Trade News Awards



"Food on both legs very reasonable for economy. Leg room acceptable. Flight attendants great. Our push chair for our 2 year old daughter was brought to us at the door on arrival in Logan which was a nice touch."

ONLINE AER LINGUS TRIP REVIEW: 5 July 2008

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 bag-tag kiosks and the “web check-in” facility. All of these technologies allow more efficient use of terminal space.

Energy monitoring: Energy consumption is regularly monitored and benchmarked against industry standards and best practice. “Green” electricity is used at stations where available.

Health, safety and security

Safety 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 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 (See Figure 3).

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 2008, 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.

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 2008 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 2008 Aer Lingus received confirmation of its successful compliance with its first 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 and audit 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.

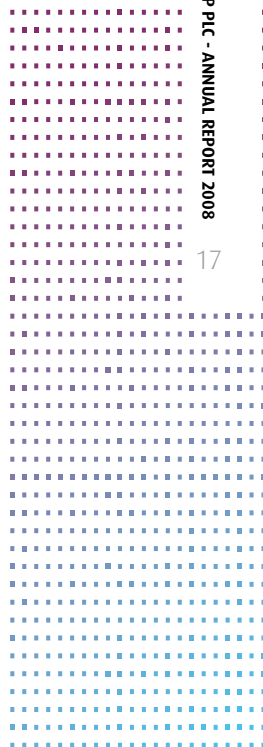




Fig 3

Board safety committee: Three members of the Group's Board are designated as a sub-committee responsible for air safety. In this role they meet quarterly with the Chief Executive Officer, the Safety Manager, 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 30 for further details.

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, and participate as committee members of 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). Aer Lingus is also currently a member of the Manual Handling Standards Group.

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.

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.

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. 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.

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 to the crew.

Staff

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

Recruitment: Aer Lingus policy on recruitment and selection is to provide the organisation with the people having the skills, competencies and aptitude to meet our strategic objectives; to provide equal access to all qualified candidates and avoid all forms of discrimination; and to select the candidate most suitable for the job in question on the basis of pre-set criteria. The Group

fills vacancies through the provision of opportunities for existing staff to progress within the organisation, combined with the recruitment of specific expertise and skills externally. Aer Lingus operates a highly effective, low cost recruitment model, where over 95% of external recruitment needs are sourced through the Group's website, www.aerlingus.com.

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 2008 a total of 37 different nationalities worked across the Group.

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

Communication and consultation with employees:

As at 31 December 2008 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 in November 2008. 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 and share ownership: Aer Lingus operates profit share and share ownership schemes. See Note 23 to the financial statements for more details.

Pension schemes: Aer Lingus operates a number of pension schemes. See Note 24 to the financial statements for more details.

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.

established by Jane and Brendan McKenna in memory of their two daughters who they lost to two different illnesses in the last number of years. They have merged with Children's Sunshine Home and plan to build LauraLynn House this year. This will be a "Home from Home", to give respite and support not only to the sick child, but also very importantly to the family as a whole. Aer Lingus has offered its support by way of on board collections over a two-week period on European flights, and also donated a number of premier class return tickets for auction prizes to help raise much-needed funds.

Aer Lingus has also partnered with Belfast City Marathon as a gold sponsor for the 2009 Marathon. In its 28th year, the event has gone from strength to strength, attracting many athletes from around the world. The Group hopes to welcome many of the participants and, indeed, spectators on board, travelling to the event in May 2009. Aer Lingus will be supporting this year's nominated charity Cystic Fibrosis (CF) Trust, by helping raise the awareness of the condition over the Marathon period.

Change for Good™ is the in-flight collection of unwanted foreign notes and coins on all long haul Aer Lingus flights, which supports UNICEF's global mission for children in over 150 of the world's poorest countries and territories. In 2008 €1.1m was raised on Aer Lingus flights. Thanks to the continued support of Aer Lingus passengers and staff through Change for Good™, UNICEF is working to build a world fit for all children where the rights of every child will be realised. Every day, simply by putting leftover notes and coins into Change for Good™ envelopes, Aer Lingus passengers are bringing hope and building a better future for children whose lives have been torn apart by war, natural disaster and poverty. For more information on UNICEF Ireland and the Change for Good™ partnership, please visit www.unicef.ie.

A very special Change for Good™ collection took place onboard all Aer Lingus flights in May 2008, and raised €303,318 in aid of UNICEF Ireland's Emergency Appeal for the children affected by Cyclone Nargis in Myanmar (Burma). Around 2.4 million people were severely affected by the cyclone, over 40% of them children, and the money raised by this special Change for Good™ appeal went directly to the hundreds of UNICEF relief missions, who were delivering essential survival kits, water purification kits, medicines and mosquito nets.



Aer Lingus passengers donate over €303,300 to UNICEF Ireland for the children of Myanmar (Burma) Pictured (L to R) Louise Faherty, Aer Lingus Cabin Crew and Melanie Verwoerd, UNICEF Ireland Executive Director.

In 2008 Aer Lingus supported the LauraLynn Children's Hospice Foundation, in raising funds for the first children's hospice in the south of Ireland. The foundation was



Aer Lingus in-flight magazine, Cara was awarded "Customer Magazine of the Year 2008" award, by the PPAI.

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 2008, 77% 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 e-mails with special offers.

During 2008 Aer Lingus introduced a new Flexifare which allows customers to change the date and time of their flight for free in addition to complimentary seat selection and checked bags, amongst other benefits.

Aer Lingus also distributes, free of charge on all flights to the UK, Europe and USA, its in-flight magazine, Cara. On 4 December 2008, Cara, which is published eight times a year, was awarded the prestigious Customer Magazine of the Year 2008 award, by the PPAI. Cara was awarded for its polished, smart image whilst meeting Aer Lingus customer needs.

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 earned on a range of quality services 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. Some Gold Circle Club members also qualify to use partner airline 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.



(L-R) Aer Lingus Pilot Pat Cahill at check-in before departing for his fundraising mission, pictured with former CEO Dermot Mannion and founder of the Laura Lynn Hospice Foundation, Jane McKenna

Board of Directors



Colm Barrington (Chairman) ⁽⁷⁾⁽⁸⁾⁽⁹⁾

Colm Barrington (63) was appointed to the Board on 19 September 2008 and appointed as Chairman on 3 October 2008. Following Mr Dermot Mannion's resignation from the role of Chief Executive and from the Board on 6 April 2009, Mr Barrington has assumed executive responsibility for an interim period until the appointment of a new Chief Executive. 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.



Sean Coyle
Chief Financial Officer and Head of Short Haul Operations

Sean Coyle (36) is a chartered accountant and graduate of Management Science from Trinity College, Dublin. He was appointed Chief Financial Officer and a member of the Board in August 2008. After initially working with KPMG Dublin, he joined Ryanair Holdings plc in 1998 where he held a number of senior positions including Head of Investor Relations, Commercial Director (Ryanair.com), and Director of Scheduled Revenue where he was centrally involved in yield and capacity management, schedule planning, network strategy and airport contract negotiations.



Laurence Crowley ⁽⁴⁾⁽⁶⁾

Laurence Crowley (72) was appointed to the Board on 9 January 2009 and is the Senior Independent Director on the Board. He is Chairman of 'Gaisce – The President's Award', the Gate Theatre, The Middletown Centre for Autism, Ecocem Limited and Pay and Shop Limited (trading as Realex Payments). He is also a member of the Board of the Economic and Social Research Institute, the Advisory Board of the US-Ireland Alliance and a number of other companies. He previously served as Governor of the Bank of Ireland (where he completed his term in 2005) and as Executive Chairman of the Michael Smurfit Graduate School of Business at University College Dublin. He is also a past Director of Elan Corporation. Previously, he was a partner in KPMG Stokes Kennedy Crowley Chartered Accountants, where he specialised in corporate restructuring and insolvency. Laurence holds a Bachelor of Commerce degree from University College Dublin and is Fellow of the Institute of Chartered Accountants in Ireland. In 2004, he was conferred with an honorary Doctorate in Laws by the National University of Ireland.



David Begg ⁽⁸⁾⁽¹⁰⁾⁽¹²⁾

David Begg (59), 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 (NESC), and of the Advisory Board of Development Co-operation Ireland. He also sits on the Executive Committee of the European Trade Union Confederation (ETUC).



Thomas Corcoran ⁽⁷⁾⁽¹⁰⁾

Thomas Corcoran (64), 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 Group Limited. 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.



Ivor Fitzpatrick ⁽¹⁾⁽⁷⁾

Ivor Fitzpatrick (53), was appointed to the Board on 5 June 2002. He is a practising solicitor and the founding partner of Ivor Fitzpatrick & Co. Solicitors. Mr Fitzpatrick has extensive experience in the legal profession and is also involved in various commercial and business activities.



Danuta Gray ⁽²⁾⁽⁶⁾

Danuta Gray (50), 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 (45), 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 (38), 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 (61), was appointed to the Board on 25 August 2006. He is a solicitor and has been a partner at Ashurst, solicitors since 1987. 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.



Anne Mills ⁽⁷⁾⁽⁸⁾

Anne Mills (60), was appointed to the Board on 22 March 2004. She is a graduate of University College Galway. Ms Mills is a Chartered Civil Engineer and was a senior engineer in Dublin City Council until her retirement, during which time she was responsible for the multi-million euro redevelopment of O'Connell Street in Dublin City.



Thomas Moran ⁽⁹⁾⁽¹⁰⁾

Thomas Moran (56), 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.

(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



Sean Coyle
*Chief Financial Officer
and Head of Short Haul
Operations*

See Board of Directors on page 22.



Niall Walsh
Chief Operating Officer

Niall Walsh, a chartered accountant, was appointed Group Procurement, IT and Property Executive in 1994. In March 1996, he became Services Director and in February 2001 overall responsibility for cost management was added to his portfolio. He was appointed Deputy Chief Executive in March 2006. Mr Walsh assumed the role of Chief Operating Officer in April 2009 with responsibility for all of the Group's ground and flight operations, procurement and airport bases. His primary focus is on operating excellence and customer service delivery.



Stephen Kavanagh
*Corporate Planning Director and
Head of Long Haul Operations*

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. Mr Kavanagh was appointed to the senior management team in March 2006. His primary focus is on the sustainable profitability of the long haul business. In addition, he has responsibility for the Group's cargo operations, managing and development of strategic alliances and for the Group's resource planning process.



Enda Corneille
Corporate Affairs Director

Enda Corneille was appointed Corporate Affairs Director in November 2007, with responsibility for internal and external communications including media relations, corporate and Government affairs together with all aspects of Aer Lingus customer service. He also has responsibility for communications within the Group's Investor Relations. Mr Corneille formally held the position of Commercial Director with responsibility for all aspects of commercial operations, developing the airline's sales and marketing capabilities with an emphasis on the continued development of the airline's website aerlingus.com. Enda has over 20 years experience with Aer Lingus joining the airline in 1986. He has held a number of positions including Head of European Sales, where he managed the commercial sales elements within Europe and the UK.



Liz White
Human Resources Director

Liz White joined Aer Lingus in 2002 as Human Resources Director and a member of the senior management team. Ms White holds a PhD in Science from Trinity College, Dublin and a Diploma in Organisation Behaviour from Birkbeck College, London. Immediately prior to joining the Company, Ms White worked for Eircom from 2000 to 2002 as Head of Compensation and Benefits, and Head of HR (Retail). Prior to this she held senior management positions with Vauxhall UK and IBC Vehicles, a subsidiary of General Motors Europe.

"The seats were comfortable, with good leg room. The flight staff were relaxed and helpful. Being a nervous flyer in the past, I can honestly say I was totally chilled out. I will most certainly make this my first choice in choosing an airline."

ONLINE AER LINGUS TRIP REVIEW:
11 March 2008



Corporate Governance Statement

Year ended 31 December 2008

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 corporate governance have been applied by the Company in the year.

Statement of Compliance

Except as disclosed below, the Directors consider that the Company has complied with all relevant provisions of the 2006 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.
- As identified in the 2007 Annual Report, the Company was not compliant in relation to Letters of Appointment for non-executive Directors during the year ended 31 December 2007. On 10 April 2008, Letters of Appointment were issued to all non-executive Directors in full compliance with the recommendations of the Combined Code. Letters of appointment were issued for all Directors appointed subsequent to this date.
- Composition of Board: Following changes in the composition of the Board, at times during 2008, 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. During 2008, 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 most of 2008, 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. Due to changes

in Board composition since the year end, as at 27 April 2009 the Company is in full compliance with this Combined Code requirement. It is the Company's intention to review the composition of the Board to endeavour to continue to comply with this requirement.

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; remuneration of non-executive Directors; pension schemes; corporate social responsibility and the appointment or removal of the Company Secretary.

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

Membership

The Board currently comprises twelve Directors – one executive (Chief Financial Officer) and eleven non-executive (including the Chairman). Following Mr Dermot Mannion's resignation from the role of Chief Executive and from the Board on 6 April 2009, Mr Barrington has assumed executive responsibility for an interim period until the appointment of a new Chief Executive. Biographies of current Directors are set out on pages 22 and 23.

During 2008, of the non-executive Directors, Mr Ivor Fitzpatrick, Mr Sean FitzPatrick, Ms Danuta Gray, Ms Anne Mills, Mr Thomas Moran and Mr Thomas Corcoran were considered to be independent by the Board. Following changes in the composition of the Board, at times during 2008, 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 Ivor Fitzpatrick, Ms Danuta Gray, Ms Anne Mills, Mr Thomas Moran, Mr Thomas Corcoran and Mr Laurence Crowley 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 review the composition of the Board to endeavour to continue 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 John Sharman was Chairman of the Group from July 2004 until his resignation on 3 October 2008, when Mr Colm Barrington was appointed as Chairman. 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 2008, the roles of Chairman and Chief Executive were independent of each other. Mr Dermot Mannion resigned from the role of Chief Executive and from the Board on 6 April 2009. Mr Colm Barrington has assumed executive responsibility for an interim period until the appointment of a new 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 Sharman held a number of other directorships and the Board considered that these did not interfere with the discharge of his duties to Aer Lingus. 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 Sean FitzPatrick was the Senior Independent Director (SID) until his resignation on 19 December 2008. As at the date of this report, Mr Laurence Crowley is the SID. 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 2006 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.

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. During 2008, the Minister for Transport of Ireland nominated his full entitlement of three Directors (Mr Francis Hackett, Mr Chris Wall and Dr Colin Hunt). Mr Chris Wall ceased to be a Director on 5 March 2009 following the expiry of his appointment as a "Minister's Nominee".

During 2008, the ESOT nominated its full entitlement of two Directors (Mr Michael Johns and Mr David Begg).

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 up to two further three-year periods provided the Director remains independent, or in the case of some committees, a majority of the Directors on the committee remain independent. As such, the Board does not consider that a Director should not be a

Corporate Governance Statement

continued

member of the same Board committee for more than six years. 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. Details of Directors' attendance at these meetings is outlined in the table on page 32. 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.

Performance Evaluation

The Board and its committees undertake an annual evaluation of their performance. The Chairman's performance is evaluated by the Senior Independent Director and the non-executive Directors at least once a year. In addition to being evaluated by the Chairman, the Directors are also obliged to assess their own performance.

Remuneration

Details of remuneration paid to Directors is set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 33 to 35.

Share Ownership and Dealing

Details of the shares held by Directors are set out in Table 2.3 on page 35. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under the policy, Directors are required to obtain clearance from the Chairman before dealing in Company shares. Directors and senior management are prohibited from dealing in Company shares during designated prohibited periods and at any time which the individual is in possession of price-sensitive information.

Board Committees

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

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

Audit Committee

The Board has established an Audit Committee consisting of three non-executive Directors considered by the Board to be independent. For the first eleven months of 2008, the Audit Committee consisted of Mr Ivor Fitzpatrick (Chairman), Mr Sean FitzPatrick and Ms Danuta Gray. Mr Sean FitzPatrick is a Chartered Accountant. On 19 December 2008, Mr Sean FitzPatrick resigned from the Board. Since the year end, Mr Laurence Crowley was appointed to the Audit Committee. 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 32.

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 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, defence against Ryanair bid, EGM working capital and ESOT administration. 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 March 2008, the committee members were Mr Ivor Fitzpatrick (Chairman), Mr John Sharman and Mr Chris Wall. In March 2008 Ms Anne Mills replaced Mr Chris Wall on the committee. In October 2008, Mr John Sharman resigned and was replaced by Mr Colm Barrington. Since the year end, Ms Danuta Gray was appointed Chairman of the Remuneration Committee and Mr Tom Corcoran was appointed as a member of the committee.

The Remuneration Committee determines the conditions of employment of executive Directors and the senior management team. It met seven times during the year. Attendance at meetings held is set out in the table on page 32.

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 2008, the Appointments Committee members were Mr Sean FitzPatrick (Chairman), Mr John Sharman and Mr Thomas Moran. In October 2008, Mr John Sharman resigned and was replaced by Mr Colm Barrington. On 19 December 2008, Mr Sean FitzPatrick resigned from the Board. Since the year end, Dr Colin Hunt and Mr Michael Johns were appointed to the Appointments Committee and Mr Laurence Crowley was appointed as Chairman of the committee. The role of the Appointments Committee is to lead the process for considering Board appointments. The Appointments Committee may

Corporate Governance Statement

continued

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 one scheduled meeting during the year. Attendance at the meeting held is set out in the table on page 32.

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 Sean Coyle and Mr Colm Barrington were appointed to the Board in 2008 and Mr Laurence Crowley was appointed to the Board since the year end. All were nominated for appointment based on the skills they would bring to the Board, and in the case of Mr Sean Coyle and Mr Colm Barrington, their extensive and indepth knowledge of the airline industry. Neither external consultants nor open advertisements were used in the appointment of Mr Sean Coyle and Mr Laurence Crowley. The Appointments Committee undertook a process involving other members of the Board and an external consultancy (Merc Consultants) for the appointment of Mr Barrington.

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 2008, the Safety Committee was composed of John Sharman (Chairman), Chris Wall and Anne Mills. In October 2008, Mr John Sharman resigned and Mr Colm Barrington was appointed to the committee. Since the year end, 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 when the Company was informed by the Minister for Transport of Ireland that Mr Chris Wall's appointment as

"Minister's Nominee" had expired. The Committee met four times during the year. Attendance at meetings held is set out in the table on page 32.

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. Until December 2008, the Risk Committee consisted of Sean FitzPatrick (Chairman), Francis Hackett and Michael Johns. On 19 December 2008, Mr Sean FitzPatrick resigned from the Board. Since the year end, the committee was reconstituted with Dr Colin Hunt as Chairman, and Messrs David Begg, Tom Corcoran, Tom Moran and Michael Johns as members of the committee. The Risk Committee has reviewed and approved the Company's Corporate Risk Assessment Process for 2008. The Risk Committee met seven times during the year. Attendance at meetings held is set out in the table on page 32.

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.

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 function; and
- An Audit Committee which 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 37 with the responsibilities of the Company's Independent Auditors outlined on page 40.

Corporate Governance Statement

continued

Table 1.1 Attendance at Board and Board Committee meetings in the year ended 31 December 2008

Name	Position	Board		Committees		
		Audit	Remuneration	Appointments	Safety	Risk
Colm Barrington ⁽¹⁾	Chairman	4/4	1/1		1/1	
John Sharman ⁽²⁾	Former Chairman	7/7	6/6	1/1	3/3	
Dermot Mannion	Former Chief Executive Officer	9/9				
Greg O'Sullivan ⁽³⁾	Finance Director	5/5				
Sean Coyle ⁽⁴⁾	Chief Financial Officer	4/4				
David Begg ⁽⁵⁾	Director	9/9				
Thomas Corcoran	Director	9/9				
Ivor Fitzpatrick	Director	8/9	4/4	7/7		
Sean FitzPatrick ⁽⁶⁾	Director	7/9	4/4	1/1		6/7
Danuta Gray	Director	9/9	3/4			
Francis Hackett	Director	8/9				7/7
Colin Hunt ⁽⁷⁾	Director	9/9				
Michael Johns	Director	9/9				7/7
Anne Mills	Director	9/9	7/7		4/4	
Thomas Moran	Director	9/9		1/1		
Chris Wall	Director	9/9			4/4	

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. In addition to the above scheduled Board meetings, a number of ad hoc meetings took place during the year.

⁽¹⁾ Mr Colm Barrington was appointed to the Board on 19 September 2008 and hence was eligible to attend a maximum of four scheduled Board meetings, one Remuneration Committee meeting and one Safety Committee meeting.

⁽²⁾ Mr John Sharman resigned from the Board on 3 October 2008 and hence was eligible to attend a maximum of seven scheduled Board meetings, six meetings of the Remuneration Committee, three Safety Committee meetings and one meeting of the Appointments Committee.

⁽³⁾ Mr Greg O'Sullivan resigned from the Board on 6 June 2008 and hence was eligible to attend a maximum of five scheduled Board meetings.

⁽⁴⁾ Mr Sean Coyle was appointed to the Board on 22 August 2008 and hence was eligible to attend a maximum of four scheduled Board meetings.

⁽⁵⁾ Mr David Begg was appointed to the Board on 29 January 2008 and was eligible to attend all scheduled Board meetings in 2008.

⁽⁶⁾ Mr Sean FitzPatrick resigned from the Board on 19 December 2008 and was eligible to attend all scheduled Board meetings and Committee meetings in 2008.

⁽⁷⁾ Mr Colin Hunt was appointed to the Board on 31 January 2008 and was eligible to attend all scheduled Board meetings in 2008.

Report of the Remuneration Committee on Directors' Remuneration

Unaudited information

The Remuneration Committee

The Remuneration Committee of the Board comprises three independent non-executive Directors. Until March 2008, the Committee members were Mr Ivor Fitzpatrick (Chairman), Mr John Sharman and Mr Chris Wall. In March 2008 Ms Anne Mills replaced Mr Chris Wall on the Committee. In October 2008, Mr John Sharman resigned and was replaced by Mr Colm Barrington. Since the year end, Ms Danuta Gray was appointed Chairman of the Remuneration Committee and Mr Tom Corcoran was appointed as a member of the committee.

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 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.

Policy

The aim of the Company's remuneration policy is 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.

Non-Executive Directors

Non-executive Directors are remunerated by way of Directors' fees. For the year ended 31 December 2008, Directors' fees were set at €45,000 per annum and Chairman's fees were set at €175,000 per annum. On 3 February 2009, all Aer Lingus Board members agreed to reduce their fees by 20%, resulting in Directors fees of €36,000 and Chairman's fees of €140,000 for 2009.

Executive Directors

During 2008, Mr Dermot Mannion (Chief Executive), Mr Sean Coyle (Chief Financial Officer) and Mr Greg O'Sullivan (Finance Director) were each executive Directors of the Company. Mr Greg O'Sullivan resigned as a Director on 6 June 2008 and Mr Sean Coyle was appointed as a Director on 22 August 2008. The remuneration package for executive Directors consists of basic salaries (subject to annual review), annual performance related bonuses, pension contributions, shares awarded under the Company's long term incentive plan (LTIP) and other benefits including

health insurance, life assurance and car allowance. As members of the Board of Directors, they also receive Directors' fees.

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.

Long Term Incentive Plan

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

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.

Non-executive Directors

The terms upon which each of the non-executive Directors have been appointed are set out in letters of appointment which reflect the form recommended by the 2006 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 profit share and share ownership schemes and a long term Incentive plan. See Notes 23 and 24 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' Shareholdings

The interests of the Directors in office at 31 December 2008 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 2008

		Basic salary and fees €'000	Pension contribution €'000	Other benefits ⁽¹⁾ €'000	Total 2008 €'000	Total 2007 €'000
Executive Directors						
Dermot Mannion	(10)	485	128	39	652	1,115
Sean Coyle	(2)	148	25	14	187	-
Greg O'Sullivan	(3), (11)	113	11	14	138	515
		903	164	88	997	1,630
Non-executive Directors						
John Sharman	(4)	175	-	-	175	175
Colm Barrington	(5)	58	-	-	58	-
David Begg	(6)	41	-	-	41	-
Thomas Corcoran		45	-	-	45	30
Ivor Fitzpatrick		55	-	-	55	55
Sean FitzPatrick	(7)	45	-	-	45	45
Danuta Gray		45	-	-	45	45
Francis Hackett		45	-	-	45	45
Colin Hunt	(8)	41	-	-	41	-
Michael Johns		45	-	-	45	45
Anne Mills		45	-	-	45	45
Thomas Moran		45	-	-	45	45
Chris Wall		45	-	-	45	45
		730	-	-	730	575
Total		1,633	164	88	1,707	2,205

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

(2) Mr Sean Coyle was appointed as a Director on 22 August 2008.

(3) Mr Greg O'Sullivan resigned as a Director on 6 June 2008.

(4) Mr John Sharman resigned as a Director on 3 October 2008.

(5) Mr Colm Barrington was appointed as a Director on 19 September 2008.

(6) Mr David Begg was appointed as a Director on 29 January 2008.

(7) Mr Sean FitzPatrick resigned as a Director on 19 December 2008.

(8) Dr Colin Hunt was appointed as a Director on 31 January 2008.

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

(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 2007 and 2008 LTIPs. In respect of the conditional award of shares granted to Mr Dermot Mannion an amount of €209,566 has been charged. Mr Dermot Mannion resigned as a Director on 6 April 2009.

(11) Mr Greg O'Sullivan retired as a Director on 6 June 2008 but continued to be employed by the Company until he elected to retire under the Company's early retirement scheme on 31 December 2008. As a consequence of such retirement, he received a payment of €443,000 and a special pension contribution of €415,000 was made on his behalf.

Table 2.2 Pension entitlements

	Increase in accrued benefit during 2008	Transfer value of increase	Total accumulated accrued benefit at year end
	€'000	€'000	€'000
Executive Directors			
Greg O'Sullivan	26	165	134
Dermot Mannion	9	74	66

In the year ended 31 December 2008, the Company paid contributions of €24,542 to a pension scheme on behalf of Mr Sean Coyle.

Table 2.3 Interest of Directors in office at 31 December 2008 in the shares of the Group

	31 December 2008 Number of shares	1 January 2008* Number of shares
Colm Barrington (Chairman)	-	-
Dermot Mannion ⁽¹⁾ ⁽²⁾	18,988	18,988
David Begg	500	-
Sean Coyle ⁽³⁾	-	-
Thomas Corcoran	8,800	-
Ivor Fitzpatrick	14,317	14,317
Danuta Gray	23,863	23,863
Francis Hackett	9,544	9,544
Colin Hunt	5,000	-
Michael Johns	4,772	4,772
Anne Mills	8,942	8,942
Thomas Moran	20,000	-
Chris Wall	4,772	4,772

There was no change in the Directors' interests in the period between 31 December 2008 and 27 April 2009.

* Or date of appointment if later

⁽¹⁾ Includes notional allocation of shares under the ESOP (9,063).

⁽²⁾ During the year ended 31 December 2008, Mr Dermot Mannion was granted conditional awards of 325,370 shares under the LTIP in respect of the vesting period 1 January 2008 to 31 December 2010, resulting in total holdings of conditional awards under the LTIP of 571,726 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⁾ During the year ended 31 December 2008, the Remuneration Committee recommended that an award of 152,709 Aer Lingus shares be made to Mr Sean Coyle under the 2008 LTIP in respect of the performance periods ending 31 December 2010. Any vesting of this award is subject to the rules of the LTIP and the achievement of the performance targets outlined in the LTIP and the rules of the LTIP. This award was granted on 17 April 2009.

Directors' Report

Year ended 31 December 2008

Introduction

The Directors present their report to shareholders, together with the financial statements of Aer Lingus Group plc and the Auditors' report thereon, for the year ended 31 December 2008.

Principal Activities and Future Developments

The principal activities during the year continued to be the provision of low fares air travel services. The Chairman's Review on pages 2 to 5 reports on developments during the year, on the state of affairs at 31 December 2008, on events since 31 December 2008, 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 11. The financial statements for the year ended 31 December 2008 are set out in details on pages 42 to 84.

Results for the Year and State of Affairs as at 31 December 2008

The consolidated income statement for the year ended 31 December 2008 and the consolidated balance sheet at that date are set out on pages 42 to 43. The loss for the year after tax amounted to €107.8m (2006: profit of €105.3m).

The movement on the consolidated income statement for the year is as follows:

	€m
Balance, 31 December 2007	66.8
Loss for the year	(107.8)
Balance, 31 December 2008	(41.0)

Total equity decreased by €171.2m during the year as a result of the loss for the year (€107.8m) and a decrease in other reserves (€63.4m). No further transfers to or from reserves are proposed by the Directors.

Substantial Interests in Share Capital

As at 27 April 2009, the Directors are aware of the following substantial interest in the share capital of the Company which represent more than 3% of the issued share capital.

Name	Shares held	% of issued share capital
Ryanair Limited	159,231,025	29.82%
Minister for Finance	134,109,026	25.12%
Aer Lingus ESOP Trustee Limited	75,975,880	14.23%

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. The principal accounting policies, together with the basis of preparation of the accounts are set out on pages 48 to 63.

Dividends

The Directors do not propose the payment of dividends in respect of the year ended 31 December 2008.

Principal Risks and Uncertainties

Information on the principal risks and uncertainties facing the Group are detailed in the Chairman's Review and in the Operating and Financial Review on pages 2 to 11. The Financial Risk Management policies in place to address these are set out in section 2.21 of the statement of accounting policies on pages 60 to 63.

Directors and Secretary

The names of the current Directors appear on pages 22 to 23, together with a short biographical note on each Director. The Directors who served during the year are listed below:

John Sharman	Colm Barrington
David Begg	Thomas Corcoran
Sean Coyle	Ivor Fitzpatrick
Sean FitzPatrick	Danuta Gray
Francis Hackett	Colin Hunt
Michael Johns	Dermot Mannion
Anne Mills	Thomas Moran
Greg O'Sullivan	Chris Wall

Mr David Begg was nominated for appointment to the Board by the Aer Lingus Employee Share Ownership Trust in accordance with the Company's Articles of Association. Mr Begg was appointed as a non-executive Director on 29 January 2008. Dr Colin Hunt was nominated for appointment to the Board by the Minister for Transport, and was appointed as a non-executive Director on 31 January 2008. Dr Hunt is designated a "Minister's Nominee" in accordance with the Company's Articles of Association. Mr Francis Hackett was renominated by the Minister for Transport as a "Minister's Nominee" effective from 9 February 2008. Mr Chris Wall, who was appointed as a non-executive Director on 23 December 1998, was designated by the Minister for Transport as a "Minister's Nominee" on the Board on 31 January 2008. Mr Chris Wall ceased to be a Director on 5 March 2009 following the expiry of his appointment as a "Minister's Nominee".

Mr Sean Coyle was appointed to the Board on 22 August 2008. Mr Colm Barrington was appointed to the Board on 19 September 2008 and was appointed as Chairman of the Board on 3 October 2008. Mr Laurence Crowley was appointed to the Board on 9 January 2009.

Ms Danuta Gray and Mr Thomas Moran were both re-appointed at the Company's Annual General Meeting during the year.

Mr Greg O'Sullivan resigned from the Board on 6 June 2008. Mr John Sharman resigned from the Board on 3 October 2008. Mr Sean FitzPatrick resigned from the Board on 19 December 2008. Mr Dermot Mannion resigned from the Board on 6 April 2009.

Mr Ivor Fitzpatrick and Ms Anne Mills 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 2008 in the shares of the Group are outlined in the Report of the Remuneration Committee on Directors Remuneration on page 35.

The interest of the Company Secretary in office at 31 December 2008 in the shares of the Group as at 31 December 2008 is 19,947 shares (2007: 19,947). This includes a notional allocation of shares under the ESOP of 17,931 (2007: 17,931). During the year ended 31 December 2008, the Company Secretary was granted a conditional award of 57,310 shares under the LTIP in respect of the vesting period 1 January 2008 to 31 December 2010, resulting in the Company Secretary holding total conditional awards of 98,226 shares under the LTIP. 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 Laurence Gourley has resigned as Company Secretary, and Mr Donal Moriarty has been appointed in his place.

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 2006 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 company'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 Regulations

Each of the Directors, whose names and functions are listed on pages 22 to 23 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 and 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. A detailed outline of the Group's Internal Control processes is included in the Corporate Governance Statement on pages 26 to 32.

Issue and Purchase of Own Shares

The Company received authority from shareholders at its last Annual General Meeting on 6 June 2008 to allot relevant securities up to a nominal value of €8,769,839 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 5 June 2009.

Corporate Governance

The Directors' Corporate Governance Statement including the Directors' statement on the adoption of the going concern basis for the preparation of the consolidated financial statements is set out on pages 26 to 32. The Report of the Remuneration Committee on Directors' Remuneration is set out on pages 33 to 35. The Directors' Corporate Social Responsibility Statement is set out on pages 12 to 21.

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

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

Subsidiary Companies

Details of the Group companies are set out in Note 11 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.

Auditors

The Auditors, PricewaterhouseCoopers, will continue in office in accordance with the provisions of S.160 (2) of the Companies Act, 1963.

Regulation 21 of SI255/2006 "EC (Takeover Directive) Regulations 2006"

For the purpose of Regulation 21 of SI 255/2006 "EC (Takeover Directive) Regulations 2006", the information given under the following headings on page 27 (Terms of Appointment), 27 and 28 (Retirement and Re-election), 33 (Non-Executive Directors, Executive Directors and Service Contracts), 36 and 37 (Substantial Interests in Share Capital and Directors and Secretary), 38 (Issue and Purchase of own shares and Share Ownership Restrictions), 58 (Employee Benefits), 79 (Called-Up Share Capital), 79 to 80 (Share Premium, Capital Conversion Reserve Fund, and Other Reserves) and 81 and 82 (Employee Participation and Pensions and other Post Employment Benefits) are deemed to be incorporated in this Report.

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 Review on pages 2 to 5
- Operating and Financial Review on pages 6 to 11 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 68
- Details of Derivative Financial Instruments on page 72

- Details of key performance indicators related to employee matters, e.g. change in number of employees, on page 67.

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 2008) 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 and includes taken as a whole and 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

Sean Coyle
DIRECTOR

27 April 2009

Independent Auditors' Report

To the Members of Aer Lingus Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Aer Lingus Group plc for the year ended 31 December 2008 on pages 42 to 84 which comprise the Group income statement, the Group and Parent Company balance sheets, the Group Cash Flow Statement, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the parent 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 2006. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 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 balance sheet 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 balance sheet 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 balance sheet, 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 2006 FRC 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 Review, the Operating and Financial Review, the Corporate Social Responsibility Statement, the Corporate Governance Statement, the Report of the Remuneration Committee on Directors' Remuneration and the Directors' Report.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 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 balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet 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 2008 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

27 April 2009

Consolidated Income Statement

Year ended 31 December

	Notes	2008 €'000	2007 €'000
Revenue	1	1,357,356	1,284,877
Operating expenses			
Staff costs, pre exceptional	6	334,300	307,328
Depreciation and amortisation		71,865	69,299
Aircraft operating lease costs		51,270	50,552
Fuel and oil costs		401,341	253,298
Maintenance expenses		74,412	82,603
Airport charges		242,903	221,437
En-route charges		57,298	54,680
Distribution charges		49,421	51,169
Ground operations, catering and other operating costs		100,992	97,166
Other (gains)/losses - net	2	(8,796)	8,880
Employee profit share	17, 23	-	9,827
		1,375,006	1,206,239
Operating (loss)/profit before net exceptional items	3	(17,650)	78,638
Net exceptional items	4	(140,888)	3,517
Operating (loss)/profit after net exceptional items		(158,538)	82,155
Finance income	5	60,860	65,143
Finance costs	5	(22,018)	(22,572)
(Loss)/profit before taxation		(119,696)	124,726
Income tax credit/(expense)	7	11,881	(19,461)
(Loss)/profit for the year		(107,815)	105,265
Attributable to:			
Equity holders of the parent		(107,815)	105,265
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the parent during the year (expressed in € cent per share)			
- basic	8	(20.4)c	19.9c
- diluted	8	(20.4)c	19.8c

The notes on pages 48 to 84 are an integral part of the financial statements.

Colm Barrington **Sean Coyle**
CHAIRMAN DIRECTOR

Approved by the Board of Directors on 27 April 2009

Consolidated Balance Sheet

As at 31 December

	Notes	2008 €'000	2007 €'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	708,961	663,100
Intangible assets	10	7,109	3,797
Other non-current financial assets	12	80,983	105,823
Derivative financial instruments	13	39,447	-
Deferred tax asset	20	1,889	-
Deposits and restricted cash with maturity greater than 12 months	16	169,279	119,513
		1,007,668	892,233
Current assets			
Inventories	14	514	874
Derivative financial instruments	13	30,872	10,683
Trade and other receivables	15	88,901	65,219
Current income tax receivables		25	5,071
Other current financial assets	12	34,126	-
Cash, cash equivalents and deposits with maturity less than 3 months	16	6,081	4,953
Deposits and restricted cash with maturity greater than 3 months	16	916,298	901,985
		1,076,817	988,785
Total assets	1	2,084,485	1,881,018
EQUITY			
Called up share capital	21	26,698	26,575
Share premium	22	506,847	502,108
Capital conversion reserve fund	22	5,048	5,048
Capital redemption reserve fund	22	343,516	343,516
Other reserves	22	(68,408)	(144)
Retained earnings		(41,006)	66,809
Total equity		772,695	943,912
LIABILITIES			
Non-current liabilities			
Borrowings	18	447,920	333,311
Derivative financial instruments	13	35,074	10,055
Deferred tax liabilities	20	-	19,316
Provisions for other liabilities and charges	19	36,599	60,416
		519,593	423,098
Current liabilities			
Trade and other payables	17	415,838	435,257
Borrowings	18	104,949	41,945
Derivative financial instruments	13	114,206	6,229
Provisions for other liabilities and charges	19	157,204	30,577
		792,197	514,008
Total liabilities	1	1,311,790	937,106
Total equity and liabilities		2,084,485	1,881,018

The notes on pages 48 to 84 are an integral part of the financial statements.

Colm Barrington **Sean Coyle**
CHAIRMAN DIRECTOR

Approved by the Board of Directors on 27 April 2009

Company Balance Sheet

As at 31 December

	Notes	2008 €'000	2007 €'000
ASSETS			
Non-current assets			
Financial assets	28	109,696	109,696
Current assets			
Trade and other receivables	29	810,650	805,788
Total assets		920,346	915,484
EQUITY			
Called up share capital	21	26,698	26,575
Share premium	22	506,847	502,108
Capital conversion reserve fund	22	5,048	5,048
Capital redemption reserve fund	22	343,516	343,516
Retained earnings		38,237	38,237
Total equity		920,346	915,484

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 €nil (2007: €nil).

The notes on pages 48 to 84 are an integral part of the financial statements.

Colm Barrington	Sean Coyle
CHAIRMAN	DIRECTOR

Approved by the Board of Directors on 27 April 2009

Consolidated Statement of Changes in Equity

	Notes	Called up share capital €'000	Share premium €'000	Capital conversion reserve fund €'000	Capital redemption reserve fund €'000	Cash flow hedging reserve €'000	Available- for-sale reserve €'000	Treasury shares €'000	Share based payment reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2007	21, 22	26,450	497,958	5,048	343,516	(19,263)	1,053	-	-	(38,456)	816,306
Profit for the year		-	-	-	-	-	-	-	-	105,265	105,265
Available-for-sale financial assets											
- Fair value gains in the year		-	-	-	-	-	3,315	-	-	-	3,315
- Deferred tax on fair value gains in the year		-	-	-	-	-	(415)	-	-	-	(415)
Cash flow hedges											
- Fair value gains in the year		-	-	-	-	1,024	-	-	-	-	1,024
- Deferred tax on fair value gains in the year		-	-	-	-	(128)	-	-	-	-	(128)
- Transfer to fuel costs		-	-	-	-	7,935	-	-	-	-	7,935
- Deferred tax on transfer to fuel costs		-	-	-	-	(993)	-	-	-	-	(993)
- Transfer to other (gains)/losses - net		-	-	-	-	12,760	-	-	-	-	12,760
- Deferred tax on transfer to other (gains)/losses - net		-	-	-	-	(1,596)	-	-	-	-	(1,596)
Total recognised gain for 2007		-	-	-	-	19,002	2,900	-	-	105,265	127,167
Issue of bonus shares		35	(35)	-	-	-	-	-	-	-	-
Issue of new shares		90	4,185	-	-	-	-	(4,275)	-	-	-
Share based payment reserve		-	-	-	-	-	-	-	500	-	500
Deferred tax impact		-	-	-	-	-	-	-	(61)	-	(61)
Balance at 31 December 2007	21, 22	26,575	502,108	5,048	343,516	(261)	3,953	(4,275)	439	66,809	943,912
Balance at 1 January 2008	21, 22	26,575	502,108	5,048	343,516	(261)	3,953	(4,275)	439	66,809	943,912
Loss for the year		-	-	-	-	-	-	-	-	(107,815)	(107,815)
Available-for-sale reserve											
- Fair value gains in the year		-	-	-	-	-	562	-	-	-	562
- Deferred tax on fair value gains in the year		-	-	-	-	-	(70)	-	-	-	(70)
- Amortisation of available-for-sale reserve		-	-	-	-	-	(1,642)	-	-	-	(1,642)
- Deferred tax on amortisation of available-for-sale reserve		-	-	-	-	-	439	-	-	-	439
Cash flow hedges											
- Fair value losses in the year		-	-	-	-	(68,865)	-	-	-	-	(68,865)
- Deferred tax on fair value losses in the year		-	-	-	-	8,608	-	-	-	-	8,608
- Transfer to fuel costs		-	-	-	-	(9,737)	-	-	-	-	(9,737)
- Deferred tax on transfer to fuel costs		-	-	-	-	1,217	-	-	-	-	1,217
- Transfer to other (gains)/losses - net		-	-	-	-	6,221	-	-	-	-	6,221
- Deferred tax on transfer to other (gains)/losses - net		-	-	-	-	(777)	-	-	-	-	(777)
Total recognised (loss)/gain for 2008		-	-	-	-	(63,333)	(711)	-	-	(107,815)	(171,859)
Issue of bonus shares		3	(3)	-	-	-	-	-	-	-	-
Issue of new shares		120	4,742	-	-	-	-	(4,862)	-	-	-
Share based payment reserve		-	-	-	-	-	-	-	735	-	735
Deferred tax impact		-	-	-	-	-	-	-	(93)	-	(93)
Balance at 31 December 2008	21, 22	26,698	506,847	5,048	343,516	(63,594)	3,242	(9,137)	1,081	(41,006)	772,695

The notes on pages 48 to 84 are an integral part of the financial statements.

Company Statement of Changes in Equity

	Notes	Called up share capital €'000	Share premium €'000	Capital conversion reserve fund €'000	Capital redemption reserve fund €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2007	21,22	26,450	497,958	5,048	343,516	38,237	911,209
Issue of bonus shares		35	(35)	-	-	-	-
Issue of new shares		90	4,185	-	-	-	4,275
Balance at 31 December 2008	21, 22	26,575	502,108	5,048	343,516	38,237	915,484
Issue of bonus shares		3	(3)	-	-	-	-
Issue of new shares		120	4,742	-	-	-	4,862
Balance at 31 December 2008	21, 22	26,698	506,847	5,048	343,516	38,237	920,346

The notes on pages 48 to 84 are an integral part of the financial statements.

Consolidated Cash Flow Statement

Year ended 31 December

	Notes	2008 €'000	2007 €'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27	(8,627)	59,122
Interest paid		(17,684)	(22,437)
Income tax received/(paid)		5,046	(4,002)
Net cash (used in)/generated from operating activities		(21,265)	32,683
Cash flows from investing activities			
Purchases of property, plant and equipment		(114,490)	(200,604)
Purchases of intangible assets	10	(5,619)	(4,294)
Proceeds from sale of investment		-	11,374
Disposal of available-for-sale financial assets		-	9,031
(Increase)/decrease in deposits and restricted cash with maturity greater than 3 months		(44,099)	138,066
Dividends received		-	2,998
Interest received		46,766	60,008
Net cash (used in)/generated from investing activities		(117,442)	16,579
Cash flows from financing activities			
Costs arising from issuance of ordinary shares		-	(3,720)
Proceeds from borrowings		186,135	2,090
Repayments of borrowings		(38,695)	(61,104)
Net cash generated from/(used in) financing activities		147,440	(62,734)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts			
		8,733	(13,472)
Cash, cash equivalents and bank overdrafts at beginning of the year	16	(12,185)	(1,226)
Exchange gains on cash, cash equivalents and bank overdrafts		9,533	2,513
Cash, cash equivalents and bank overdrafts at end of the year	16	6,081	(12,185)

The notes on pages 48 to 84 are an integral part of the financial statements.

A cash flow statement has not been prepared for the holding company as it does not hold any cash. There was no cash held in the holding company during the years ended 31 December 2008 and 2007 or at either year-end.

Basis of Preparation and Statement of Accounting Policies

1. Basis of preparation and general information

Introduction

Aer Lingus Group plc ("the Company") and its subsidiaries (together "the Group") operates as a low fares 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 27 April 2009. The financial statements are for the Group for the financial years ended 31 December 2008 and 31 December 2007. The principal companies within the Group during the years ended 31 December 2008 and 31 December 2007 are disclosed in Note 11.

Basis of preparation

The financial statements of Aer Lingus Group plc, which are presented in euros and rounded to the nearest thousand (€'000), have been prepared in accordance with EU adopted International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Acts 1963 to 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

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 estimates. 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 paragraph 2.22 below.

(a) Amendments and interpretations effective in 2008

IAS 39 (Amendment) *Financial instruments: Recognition and Measurement* permits reclassification of certain financial assets out of the held for trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7 *Financial Instruments: Disclosures*, introduces disclosure requirements with respect to financial assets reclassified out of held for trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. The Group adopted the amendment to IAS 39 on the effective date. See note 12 for the effect of the amendment on the Group's financial statements.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* provides guidance on whether Share based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled Share based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC 12 *Service Concession Arrangements* applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. As the Group is not a service concession operator IFRIC 12 is not relevant to the Group's activities.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. As the Group does not have any pension arrangements which are categorised as defined benefit schemes IFRIC 14 is not relevant to the Group's activities.

(b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, interpretations and amendments to existing standards have been published and are mandatory for future accounting periods, but the Group has not early adopted them:

- Amendment to IFRS 1 (Revised) *First time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice

to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the Group's financial statements.

- Amendment to IFRS 2 *Share based Payment* (effective for accounting periods beginning on or after 1 January 2009). The amended standard 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 grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply this amendment from the effective date, but it is not expected to have a significant impact on the Group's financial statements.
- IFRS 3 (Revised) *Business Combinations* (effective for accounting periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) from the effective date for any future acquisitions.
- Amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (and consequential amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards*) (effective for accounting periods beginning on or after 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply the amendment to IFRS 5 prospectively to all partial disposals of subsidiaries from the effective date.
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). IFRS 8 sets out the requirements for disclosure of financial and descriptive information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The IFRS replaces IAS 14 *Segment Reporting*. The Group will apply IFRS 8 from the effective date and is currently considering the impact of this standard on its disclosures.
- IAS 1 *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply the revised IAS 1 from the effective date and is currently assessing the impact on the Group's financial statements.
- Amendment to IAS 1 *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, *Financial instruments: Recognition and measurement* are examples of current assets and liabilities respectively. The Group will apply the amendment to IAS 1 from the effective date, however it is not expected to have an impact on the Group's financial statements.
- Amendment to IAS 16 *Property, Plant and Equipment* (and consequential amendment to IAS 7 *Statement of Cash Flows*) (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories

Basis of Preparation and Statement of Accounting Policies *continued*

when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment to IAS 16 will not have an impact on the Group's operations because none of the Group's companies' ordinary activities comprise renting and subsequently selling assets.

- Amendment to IAS 19 *Employee Benefits* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
 - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
 - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - IAS 37, *Provisions, contingent liabilities and contingent assets*, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the amendment to IAS 19 from the effective date, however it is not expected to have any impact on the Group's financial statements.

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (effective for accounting periods beginning on or after 1 January 2009). The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 *Financial instruments: Recognition and Measurement* and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment to IAS 20 will not have an impact on the Group's operations as there are no loans received or other grants from the government.
- Amendment to IAS 23 *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply the amendment to IAS 23 retrospectively from 1 January 2009, however it is not expected to have any material impact on the Group's financial statements.
- Amendment to IAS 23 *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 *Financial Instruments: Recognition and measurement*. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the amendment to IAS 23 prospectively to the capitalisation of borrowing costs on qualifying assets from the effective date.
- IAS 27 *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply the revised IAS 27 prospectively to transactions with non-controlling interests from 1 January 2010.
- Amendment to IAS 27 *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*, is classified as held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in a subsidiary to be recorded at cost in the standalone accounts of each entity.

- Amendment to IAS 28 *Investments in associates* (and consequential amendments to IAS 32 *Financial Instruments: Presentation*, and IFRS 7 *Financial Instruments: Disclosures*) (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the amendment to IAS 28 to impairment tests related to investments in associates and any related impairment losses from the effective date.
- IAS 28 *Investments in Associates* (and consequential amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial instruments: Disclosures*) (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The Group will apply the amendment from the effective date, however it is not expected to have an impact on the Group's financial statements.
- Amendment to IAS 29 *Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment to IAS 29 will not have an impact on the Group's operations, as none of the Group's subsidiaries operate in hyperinflationary economies.
- Amendment to IAS 31 *Interests in Joint Ventures* (and consequential amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial instruments: Disclosures*) (effective for accounting periods beginning on or after January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The Group will apply the amendment from the effective date, however it is not expected to have an impact on the Group's financial statements.
- Amendment to IAS 32 *Financial Instruments: Presentation*, and IAS 1 *Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation* (effective for accounting periods beginning on or after 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the amendments to IAS 32 and IAS 1 from the effective date and is currently assessing the impact on the Group's financial statements.
- Amendment to IAS 36 *Impairment of Assets* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the amendment to IAS 36 and provide the required disclosures where applicable for impairment tests from the effective date.
- Amendment to IAS 38 *Intangible Assets* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the amendment to IAS 38 prospectively to prepayments made from the effective date.
- Amendment to IAS 38 *Intangible assets* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Group's operations, as all intangible assets are amortised using the straight-line method.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

Basis of Preparation and Statement of Accounting Policies *continued*

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8 *Operating Segments*, which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the amendment to IAS 39 from the effective date. It is not expected to have an impact on the Group's income statement.

- Amendment to IAS 40 *Investment Property* (and consequential amendments to IAS 16 *Property, Plant and Equipment*) (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment to IAS 40 will not have an impact on the Group's operations, as there are no investment properties held by the Group.
- Amendment to IAS 41 *Agriculture* (effective for accounting periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.
- There are a number of minor amendments to IFRS 7 *Financial instruments: Disclosures*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 10 *Events after the Reporting Period*, IAS 18 *Revenue*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IAS 29 *Financial Reporting in Hyperinflationary Economies*, IAS 34 *Interim Financial Reporting*, IAS 40 *Investment Property*, and IAS 41 *Agriculture*, which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will be implemented from their effective dates and the Group is currently assessing their impact on the Group's financial statements.
- IFRS 7 (Amendment), *Financial Instruments: Disclosure* (effective for financial periods beginning on or after 1 January 2009). The amendment is still subject to EU endorsement. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. The Group will adopt the amendment to IFRS 7 from 1 January 2009, subject to EU endorsement, and the Group is currently assessing its impact on the Group's financial statements.
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply IFRIC 13 from the effective date. If the Group had applied IFRIC 13 in the year ended 31 December 2008, the Group's liabilities would have increased by €11.8m.
- IFRIC 15 *Agreements for the Construction of Real Estate* (effective from 1 January 2009). The interpretation clarifies whether IAS 18 *Revenue* or IAS 11 *Construction Contracts*, should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* do apply to the hedged item. The Group will apply IFRIC 16 from the effective date, however it is not expected to have an impact on the Group's financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). The interpretation is still subject to EU endorsement. This interpretation applies to transactions in which an entity distributes assets (other than cash) as dividends to its owners acting in their capacity as owners and how an entity should measure the dividend payable. The IFRIC also clarifies when an entity should recognise a dividend payable, i.e. when the dividend is appropriately authorised and no longer at the discretion of the entity. The Group will apply IFRIC 17 from its effective date, subject to EU endorsement, however it is not expected to have an impact on the Group's financial statements.
- IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets from customers received on or after 1 July 2009). The interpretation is still subject to EU endorsement. This interpretation applies to agreements in which an entity receives from a customer an item of property, plant and equipment (or an amount of cash which must be used to construct or acquire an item of property, plant and equipment) that the entity must use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or do both. The Group will apply IFRIC 18 from its effective date, subject to EU endorsement, however it is not expected to have an impact on the Group's financial statements.

2. Accounting policies

2.1 Consolidation

Subsidiaries are all 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 and cease to be consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, 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.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary segments are based on the nature of the services provided ("business segment") whereas the secondary segments are based on the journey destination point of the booking ("geographical segment").

Expenses incurred centrally, including expenses incurred by support and administrative functions, are charged to the business segments in accordance with their estimated proportionate share of overall activities.

Segment assets and liabilities are those assets and liabilities that are directly attributable to the operating activities of the segment.

Basis of Preparation and Statement of Accounting Policies *continued*

2.3 Foreign currency translation

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

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

2.4 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:

Flight equipment	Useful lives	Residual values
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 each balance sheet date. 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.

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.

2.5 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.

2.6 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 costs to sell and value in use. For

the purposes 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held to maturity investments, and available-for-sale financial assets. The financial assets which meet the criteria to be designated as loans and receivables and held to maturity investments, as set out below, are so designated, with all other financial assets classified as available-for-sale. This determination was made on transition to IFRS and, in the case of assets acquired post this date, on 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 on the balance sheet, except for those with maturities greater than 12 months after the balance sheet date, which are included in non-current assets. Loans and receivables are included within 'other non-current/current financial assets' and 'trade and other receivables' in the balance sheet and are carried at amortised cost using the effective interest method.

(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 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.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives which are not classified as loans and receivables or held to maturity investments. They are included in current/non-current assets on the balance sheet unless management intends to dispose of the investment within 12 months of the balance sheet date. Interest on available-for-sale securities, calculated using the effective interest method, is recognised in the income statement.

Purchases and sales of available-for-sale financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. They are initially recognised at fair value plus transaction costs. They 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 are subsequently carried at fair value. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement within 'other (gains)/losses - net', and other changes in carrying amount are recognised in equity. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

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. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost (net of principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Basis of Preparation and Statement of Accounting Policies *continued*

(d) Reclassification

The Group reclassified as loans and receivables, financial assets that had been previously classified as available-for-sale as these financial assets would previously have met the definition of loans and receivables and the Group has the intention and ability to hold these financial assets until maturity. These financial assets were reclassified at their fair values on the date of reclassification and the gains/(losses) that were previously recognised in equity shall be reclassified to profit or loss over the remaining lives of the financial assets using the effective interest rate method. See Note 12.

(e) Investment in Subsidiaries – Company

Investments in subsidiaries are stated at cost and are renewed for impairment if there are any indications that the carrying value may not be recoverable.

2.8 Derivative financial instruments and hedging activities

Derivatives are used by the Group to manage interest rate, foreign exchange and commodity price risk.

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 hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group is required to document 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 hedge 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 13. Movements in the hedging reserve in shareholders' equity are shown in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the remaining hedged items 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.

(a) Fair value hedge

Fair value hedges are principally used to manage the interest rate risk in certain fixed rate exposures. 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 assets or liabilities that are attributable to the hedged risk. 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' along with the changes in the fair value of the hedged fixed rate assets and borrowings which are attributable to interest rate risk. The gain or loss relating to the ineffective portion of the interest rate swaps is recognised in the income statement within 'other (gains)/losses - net'.

If the hedge no longer meets the criteria for hedge accounting the adjustment to the carrying amount of a hedge 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 equity. 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 foreign exchange derivatives.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast 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.

(c) Derivatives that do not qualify for hedge accounting

Some derivatives, while being hedges from a commercial perspective, do not meet the detailed hedge accounting criteria under IFRS. Changes in the fair value of these instruments are recognised immediately in the income statement.

2.9 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.

2.10 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 delinquency 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 future cash flows, discounted at the effective interest rate. The carrying amount of the asset 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 uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the same account in the income statement.

2.11 Cash, cash equivalents and deposits

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

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

2.12 Trade payables

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

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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 balance sheet date.

2.14 Taxation

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Basis of Preparation and Statement of Accounting Policies *continued*

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

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

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.

2.15 Employee benefits

Pension obligations

The Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate fund 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.

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.

Long Term Incentive Plan

The Group operates an equity-settled, Share based compensation plan. The fair value of employee services received in exchange for the issue of an award is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the award issued at the date of the award, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. The Group recognises the impact of the revision to original estimates, based on changes in the performance of market or non-market vesting conditions, 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.

Employee profit sharing scheme

The Group recognises a liability and an expense for the employee profit share scheme, 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.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be 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 on these aircraft 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. If aircraft leases expire and the aircraft pass into Group ownership, the related maintenance provisions are transferred

to fixed assets. If the aircraft does not pass into Group ownership 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, having regard to the current status of negotiations.

2.17 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that 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 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 balance sheet date is included in 'trade and other payables' 'under the caption of 'ticket sales in advance'. Expired tickets are recognised as revenue using estimates regarding the timing of recognition based on historical trends. Fees charged for any changes to flight tickets are recognised as revenue immediately. Ancillary revenues are recognised in the income statement in the period in which the associated services are provided.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Dividend income

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

2.18 Leases

Assets held under finance leases, which transfer substantially all the risks and rewards of ownership to the Group, are initially recorded on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments at the inception of the lease. The equivalent liability, categorised as appropriate, is included under 'borrowings'. Finance lease charges are recognised in the income statement over the period of the lease using the effective interest method. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. 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 property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the Group 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.

2.19 Called up 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 is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

2.20 Exceptional items

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

Basis of Preparation and Statement of Accounting Policies *continued*

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.

2.21 Financial risk management

2.21.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, interest rate risk, credit risk, liquidity risk (including funding and cash management) and commodity price risk. The Group's overall risk management programme focuses on the reduction or, where possible, elimination of the impact of volatility in currency, interest rates and other markets, on the Group's performance.

The purpose of the Board approved Aer Lingus Group plc Treasury Policy (the "Treasury Policy") is to regulate how the operations of the individual treasury activities of the Group are to be conducted and how the associated risks are to be controlled.

The Treasury Policy seeks to ensure that activities undertaken will not subject the Group to undesired levels of risk and that the treasury function will contribute to financial performance through focused management of treasury activities. The Group adopts a strategic approach to management of its treasury exposures. This approach involves placing certain levels of cover and developing strategies to manage the remaining exposures based on business risks and an assessment of the likely movement in market rates. This approach is business based, strategic and ongoing. The emphasis is on risk management and reduction and protecting the Group from the financial impact of volatility in financial markets and fuel markets.

The Treasury Policy contains targets in relation to liquidity levels and to the levels of hedging to be placed in managing financial risks, as outlined below. However, the Treasury Policy provides flexibility, by allowing deviations from these minimum targets, where this is considered to be in the best interests of the Group, in the context of market conditions.

The Group recognises the significant impact treasury exposures can have on corporate financial performance. The management of treasury exposures therefore receives an appropriate level of senior management attention.

The market in which Aer Lingus operates poses significant financial, commercial and commodity price risks for the Group. The Group recognises that it must manage the financial risks associated with the market in which it operates and the treasury function manages the financial (treasury) risks detailed below.

a) Market risk

i. Currency risk

The main currency exposures result from a deficit in US dollars and a surplus in sterling. A large proportion of the treasury function's work in relation to currency 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 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 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 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 at 31 December 2008, a 5% weakening of the EUR/GBP exchange rate over the year end rate would result in a reduction in profit of €2.7m for the year. Based on the deficit in US dollars at 31 December 2008, a 5% strengthening of the EUR/USD exchange rate over the year-end rate would result in a reduction in profit of €20.1m 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 exposure on debt is managed by placing matching investments, which serve as natural hedges in relation to both interest rate and currency exposures on the debt. Apart from 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 rates. This exposure is actively reviewed and managed.

A 1% fall in interest rates based on net surplus free cash throughout 2008 would reduce profits by €7.6m.

iii. Commodity price risk

The Group's fuel requirement exposes the Group to the market volatility of jet fuel prices. The Group is subject to jet fuel price risk resulting from its operating activities. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on profitability in these operations. The primary policy objective for the management of fuel price exposure in the Group is to contribute to the achievement of the Group's profitability in a risk managed and cost effective manner.

The treasury function manages the fuel price exposure associated with the Group's trading activities on a selective hedging basis. The Group's risk management policy targets a minimum of 40% cover for fuel exposures for the current financial year and a minimum of 20% for the following financial year.

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

A US \$10 increase in the price per tonne of jet fuel in 2008 would have increased fuel costs by \$5.4m.

b) Credit risk

Credit risk is managed on a group basis. Credit exposures result from investment activity with financial counterparties, and from transacting derivative financial instruments used in managing the Group's foreign exchange, fuel and interest rate risks. 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.

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

At 31 December 2008, the Group had a total credit exposure of €1.1bn relating to cash and deposits, which was spread over 30 financial counterparties. Of this, €0.8bn was due to mature within 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 trade and other receivables.

Of the total credit exposure of €1.1bn, 16% was held with financial institutions, holding long-term credit ratings of AAA, and 68% with ratings equivalent to AA1/AA2 ratings (Moody's). The remaining 16%, held with financial institutions with long-term ratings of AA3 or A1, mainly comprised 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 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.

Basis of Preparation and Statement of Accounting Policies *continued*

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

	Less than 1 Year €'000	1-2 Years €'000	2-5 Years €'000	Over 5 Years €'000	Total €'000
At 31 December 2008					
Borrowings	128,812	66,480	141,915	351,077	688,284
Trade and other payables	415,838	-	-	-	415,838
At 31 December 2007					
Borrowings	34,638	109,783	116,544	167,298	428,263
Trade and other payables	435,257	-	-	-	435,257

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

	Less than 1 Year €'000	1-2 Years €'000	2-5 Years €'000	Over 5 Years €'000	Total €'000
At 31 December 2008					
<i>Cross currency interest rate swap</i>					
Outflow	-	-	19,045	-	19,045
Inflow	-	-	12,760	-	12,760
<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
At 31 December 2007					
<i>Cross currency interest rate swap</i>					
Outflow	-	-	20,170	-	20,170
Inflow	-	-	12,833	-	12,833
<i>Forward foreign currency contracts</i>					
Outflow	266,918	259,156	7,967	-	534,041
Inflow	260,519	255,052	7,990	-	523,561
<i>Forward fuel price contracts</i>					
Outflow	89,088	4,880	-	-	93,968
Inflow	99,853	5,003	-	-	104,856

2.21.2 Capital 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 net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash, cash equivalents and deposits. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. Overall, the Group is currently in a net cash position.

2.21.3 Fair value estimation

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, (principally discounted cash flow).

The fair value of cross currency interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

2.22 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 provision for legal or constructive obligations, which it knows to be outstanding at the balance sheet 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 cost of events which 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 the scheme's surplus or deficit on the balance sheet.

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 balance sheet and reflect any period on period movements in its income statement or the statement of changes in equity.

Notes to the Consolidated Financial Statements

Year ended 31 December 2008

1 Segmental information

The Group considers that its business segments are its primary basis of analysing financial performance and reflect the internal management structure and reporting. Information is also provided on a geographic segment basis.

(i) Primary reporting format - business segment

The Group is primarily organised into two business segments – passenger (which includes revenues and costs relating to the carriage of passengers) and cargo (which relates to the revenues and costs from the transportation of cargo). Ancillary revenues, including on Board sales, are included in the passenger segment together with their associated costs. For internal management purposes, direct operating costs are allocated between the segments based on their contributions to route revenue. Certain costs, assets and liabilities (including the aircraft and their related financing arrangements) contribute to both the passenger and cargo segments and as such cannot be directly attributed to either segment and are therefore shown as unallocated.

Year ended 31 December 2008

	Passenger 2008 €'000	Cargo 2008 €'000	Unallocated ⁽¹⁾ 2008 €'000	Total 2008 €'000
Passenger revenue	1,151,572	-	-	1,151,572
Ancillary revenue	149,748	-	-	149,748
Other revenue	5,763	-	-	5,763
Cargo revenue	-	50,273	-	50,273
Segment revenue	1,307,083	50,273	-	1,357,356
Operating profit/(loss) before net exceptional items	41,859	3,560	(63,069)	(17,650)
Net exceptional items	(98,847)	(9,161)	(32,880)	(140,888)
Operating profit/(loss) after net exceptional items	(56,988)	(5,601)	(95,949)	(158,538)
Finance income				60,860
Finance costs				(22,018)
Loss before taxation				(119,696)
Income tax credit				11,881
Loss for the year				(107,815)

⁽¹⁾ Unallocated includes depreciation and amortisation in relation to assets of (€71.9m) and other gains and losses - net of €8.8m.

Year ended 31 December 2007

	Passenger 2007 €'000	Cargo 2007 €'000	Unallocated ⁽²⁾ 2007 €'000	Total 2007 €'000
Passenger revenue	1,123,298	-	-	1,123,298
Ancillary revenue	108,725	-	-	108,725
Other revenue	5,193	-	-	5,193
Cargo revenue	-	47,661	-	47,661
Segment revenue	1,237,216	47,661	-	1,284,877
Operating profit/(loss) before net exceptional items	158,408	8,238	(88,008)	78,638
Net exceptional items	-	-	3,517	3,517
Operating profit/(loss) after net exceptional items	158,408	8,238	(84,491)	82,155
Finance income				65,143
Finance costs				(22,572)
Profit before taxation				124,726
Income tax charge				(19,461)
Profit for the year				105,265

⁽²⁾ Unallocated includes depreciation and amortisation in relation to assets of (€69.3m), other gains and losses – net of (€8.9m) and profit share of (€9.8m).

Assets and liabilities	Assets		Liabilities	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Passenger	39,984	34,391	338,488	263,669
Cargo	9,157	5,374	12,206	3,253
Common assets and liabilities	2,035,344	1,841,253	961,096	670,184
Total	2,084,485	1,881,018	1,311,790	937,106

Other segment information	Capital additions ⁽³⁾		Depreciation ⁽³⁾	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Passenger	3,624	2,825	4,566	3,841
Cargo	248	478	763	196
Common assets and liabilities	111,547	197,301	66,536	65,262
Total	115,419	200,604	71,865	69,299

⁽³⁾ Includes intangible assets

(ii) Secondary reporting format - geographic segment

Revenues and related assets and liabilities are allocated to geographic segments based on the journey destination point of each booking. Other assets and liabilities are allocated on the basis of physical location.

Revenue	2008	2007
	€'000	€'000
Europe	768,672	758,330
Rest of the world	402,378	385,526
Ancillary and other unallocated revenue	186,306	141,021
Total revenue	1,357,356	1,284,877

Assets and capital additions	Assets		Capital additions ⁽⁴⁾	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Europe	2,004,547	1,752,263	115,149	200,604
Rest of the world	9,619	12,249	270	-
Unallocated	70,319	116,506	-	-
Total revenue	2,084,485	1,881,018	115,419	200,604

⁽⁴⁾ Includes intangible assets

Notes to the Consolidated Financial Statements

continued

2 Other (gains)/losses, net

	2008 €'000	2007 €'000
- Losses on foreign exchange options and forward contracts incurred	-	209
- Fair value losses/(gains) on cross currency interest rate swaps	33	(712)
	33	(503)
Net foreign exchange losses/(gains) on operating activities	(8,829)	9,383
	(8,796)	8,880

3 Operating (loss)/profit before net exceptional items

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

	2008 €'000	2007 €'000
Depreciation of property, plant and equipment (Note 9)		
- owned	30,262	36,256
- held under finance leases	39,296	27,408
Amortisation of intangible assets (Note 10)	2,307	5,635
Operating lease rentals payable		
- plant and machinery	77	83
- aircraft	51,270	50,552
- property	10,376	8,088
Auditors' remuneration		
- audit fee	200	196
- non-audit related	446	458
Directors' emoluments*	1,707	2,205

*Further information on Directors' emoluments is included in the Report of the Remuneration Committee on Directors' Remuneration on pages 33 to 35.

4 Net exceptional items

	2008 €'000	2007 €'000
Profit on disposal of investment (a)	-	11,374
Takeover defence costs (b)	(5,845)	(7,857)
Compensation under PCI (c)	(17,543)	-
Restructuring (d)	(117,500)	-
	(140,888)	3,517

(a) Profit on disposal of investment in Futura (see Note 11)

(b) Charge for costs incurred in the defence of takeover bid

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

(d) Cost of restructuring programme for early retirement, voluntary severance and migration schemes

5 Finance income and finance costs

	2008 €'000	2007 €'000
<i>Finance income</i>		
Interest on cash and term deposits	54,798	56,508
Interest income on other financial assets (Note 12)	4,420	5,637
Amortisation of available-for-sale reserve (Note 12)	1,642	-
Dividends received	-	2,998
	60,860	65,143
<i>Finance costs</i>		
On bank loans and overdrafts	57	1,377
Finance lease interest	21,508	20,306
Finance charge on discounted provision (Note 19)	453	889
	22,018	22,572

6 Employee benefits

The average number of persons employed by the Group in the financial year was 4,035 (2007: 3,905) split as follows:

	2008	2007
Operations and administration	3,888	3,712
Sales and marketing	147	193
	4,035	3,905

Their associated payroll costs were as follows:

	2008 €'000	2007 €'000
Wages and salaries	279,763	261,341
Social welfare costs	24,463	21,992
Pension costs (Note 24)	29,339	23,495
Share based payments (Note 22)	735	500
	334,300	307,328

A charge of €Nil has been made in respect of the employee profit share for 2008 (2007: €9.8m).

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7 Income tax

(i) Income tax (credit)/expense recognised in the income statement

	2008 €'000	2007 €'000
Current taxation		
Irish corporation tax	-	-
Deferred tax		
Origination and reversal of temporary differences (Note 20)	(11,881)	19,461
Total income tax (credit)/expense	(11,881)	19,461

(ii) Reconciliation of effective tax rate

	2008 €'000	2007 €'000
(Loss)/profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2007: 12.5%)	(14,962)	15,591
Effects of:		
Expenses not deductible for tax purposes	276	22
Differences in tax rates	3,288	3,826
Other adjusting items	(483)	22
Income tax (credit)/expense for the year	(11,881)	19,461

8 Earnings per share

(a) Basic

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

	2008	2007
(Loss)/profit attributable to equity holders of the parent (€'000s)	(107,815)	105,265
Weighted average number of ordinary shares in issue (000's)	529,731	529,162
Basic (loss)/earnings per share (€ cent per share)	(20.4)c	19.9c

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In 2008 there were no dilutive potential ordinary shares. In 2007 the parent had dilutive potential ordinary shares due to the 2007 bonus share issue.

	2008	2007
(Loss)/profit attributable to equity holders of the parent used to determine diluted earnings per share (€'000s)	(107,815)	105,265
Weighted average number of ordinary shares in issue (000's)	529,731	529,162
Adjustments for:		
- Bonus shares of 1 for 20 October 2007	-	52
Weighted average number of ordinary shares for diluted earnings per share	529,731	529,214
Diluted (loss)/earnings per share (€ cent per share)	(20.4)c	19.8c

9 Property, plant and equipment

	Flight equipment €'000	Property €'000	Ground equipment €'000	Other equipment €'000	Total €'000
Cost					
1 January 2007	707,640	41,509	53,599	35,838	838,586
Additions	197,106	83	2,074	1,341	200,604
Disposals	(10,925)	(3,306)	(5,183)	(5,950)	(25,364)
31 December 2007	893,821	38,286	50,490	31,229	1,013,826
Accumulated depreciation					
1 January 2007	210,096	32,159	38,404	31,767	312,426
Depreciation charge for the year	59,056	1,627	2,630	351	63,664
Disposals	(10,925)	(3,306)	(5,183)	(5,950)	(25,364)
31 December 2007	258,227	30,480	35,851	26,168	350,726
Cost					
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)
31 December 2008	1,002,957	38,540	43,551	22,923	1,107,971
Accumulated depreciation					
1 January 2008	258,227	30,480	35,851	26,168	350,726
Depreciation charge for the year	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)
31 December 2008	316,712	31,747	31,081	19,470	399,010
Net book value					
31 December 2008	686,245	6,793	12,470	3,453	708,961
31 December 2007	635,594	7,806	14,639	5,061	663,100
Leased assets included in above (net book value)					
31 December 2008	472,076	-	-	-	472,076
31 December 2007	298,504	-	-	-	298,504

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 2007 or 2008.

Bank borrowings are secured on flight equipment with a net book value of €528.6m (2007: €352.8m) (Note 18).

The depreciation expense of €69.6m (2007: €63.7m) has been charged in 'Depreciation and amortisation' in the income statement.

Notes to the Consolidated Financial Statements

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10 Intangible assets

Computer software

	2008 €'000	2007 €'000
Cost		
Beginning of year	44,049	40,086
Additions	5,619	4,294
Disposals	(15,415)	(331)
Transfer from property, plant and equipment	10,301	-
End of year	44,554	44,049
Aggregate amortisation		
Beginning of year	40,252	34,948
Charge for the year	2,307	5,635
Disposals	(15,415)	(331)
Transfer from property, plant and equipment	10,301	-
End of year	37,445	40,252
Net book value		
End of year	7,109	3,797
Beginning of year	3,797	5,138

The amortisation expense of €2.3m (2007: €5.6m) has been charged in 'Depreciation and amortisation' in the income statement.

11 Group undertakings

Aer Lingus Group plc is a company incorporated under the Irish Companies Acts, 1963 to 2006. 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 and Aer Lingus Beachey Limited, both of which are wholly owned. Aer Lingus Limited is incorporated in Ireland and is the principal operating company. Aer Lingus Beachey Limited is incorporated in the Isle of Man and its principal activity is aircraft financing. Full details of all group companies will be filed with the Company's annual return, which is available from the Companies Registration Office, Dublin 1. In addition, the Group trades through a number of overseas branches. ALG Trustees Limited was retained in 2007 to manage the Group's Long Term Incentive Plan (LTIP). The Group consolidates ALG Trustees Limited in the Group accounts.

In October 2007, the Group disposed of its residual 20% shareholding in Futura, a Spanish registered company. This holding had not been treated as an associated undertaking as, in the view of the Directors, the Group was unable to exercise significant influence over the operations of this entity, due to the existence of a majority shareholder. The Group's investment in Futura had a fair value of zero at 31 December 2006.

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 subsidiary undertakings for the purposes of Section 17 of the Companies (Amendment) Act, 1986.

12 Other financial assets

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

	2008 €'000	2007 €'000
Beginning of year	105,823	118,903
Disposals	-	(10,633)
Exchange differences	(7,141)	(11,399)
Interest income	1,464	5,637
Revaluation movement transferred to equity	562	3,315
Reclassification to loans and receivables	(100,708)	-
End of year	-	105,823
Less: non-current portion	-	(105,823)
Current portion	-	-

Loans and receivables

	2008 €'000	2007 €'000
Beginning of year	-	-
Reclassification from available-for-sale	100,708	-
Exchange differences	11,445	-
Interest income	2,956	-
End of year	115,109	-
Less: non-current portion	(80,983)	-
Current portion	34,126	-

There were no impairment provisions on loans and receivables in 2008.

Loans and receivables assets comprise the following:

	2008 €'000	2007 €'000
Unlisted securities:		
- Debt securities trade on inactive markets with fixed interest rates ranging from 4.4% to 7.4% and maturity dates from November 2009 to September 2015	115,109	105,823

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. These securities, together with the interest receivable thereon, will be sufficient to meet the associated lease obligations.

The maximum exposure to credit risk at the reporting date 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 2008 the fair values and the carrying values of the financial assets reclassified during the current year were €110.4m and €115.1m respectively. If the financial assets had not been reclassified a fair value loss of €6.3m would have been recognised in equity in the period following the reclassification of the financial assets. 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. Following reclassification €1.6m was amortised from the available-for-sale reserve to the income statement in the period.

Notes to the Consolidated Financial Statements

continued

12 Other financial assets (continued)

The effective interest rates of the financial assets reclassified into loans and receivables 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 €'000	Between 1 and 2 years €'000	Between 2 and 5 years €'000	Over 5 years €'000
Unlisted debt securities:	39,917	5,663	12,703	77,100

13 Derivative financial instruments

	2008 €'000		2007 €'000	
	Assets	Liabilities	Assets	Liabilities
Cross currency interest rate swaps – held for trading	-	6,285	-	6,252
Forward foreign exchange contracts – cash flow hedges	70,319	-	-	10,032
Forward fuel price contracts – cash flow hedges	-	142,995	10,683	-
Total	70,319	149,280	10,683	16,284
Less non-current portion:				
Cross currency interest rate swaps – held for trading	-	6,285	-	6,252
Forward foreign exchange contracts – cash flow hedges	39,447	-	-	3,803
Forward fuel price contracts – cash flow hedges	-	28,789	-	-
Non-current portion	39,447	35,074	-	10,055
Current portion	30,872	114,206	10,683	6,229

The carrying amounts of the Group's derivative financial instruments are denominated in the following currencies:

	2008 €'000		2007 €'000	
	USD	GBP	USD	GBP
Cross currency interest rate swaps – held for trading	(6,285)	-	(6,252)	-
Forward foreign exchange contracts – cash flow hedges	57,981	12,338	(13,178)	3,146
Forward fuel price contracts – cash flow hedges	(142,995)	-	10,683	-
Total	(91,299)	12,338	(8,747)	3,146

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 were €1,251.1m (2007: €537.3m).

Cross currency interest rate swaps

The notional principal amounts of the outstanding cross currency interest rate swap contracts at 31 December 2008 were €20.2m (2007: €20.2m).

At 31 December 2008 the fixed interest rates vary from 2.5% to 3.8% (2007: 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 principle amounts of the outstanding contracts at 31 December 2008 were €348.8m (2007: €94.0m). The outstanding fuel price contracts at 31 December 2008 amounted to 541,917 metric tonnes of aircraft fuel (2007: 175,782 metric tonnes).

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

There was no ineffectiveness recorded for cash flow hedges in 2008 (2007: credit of €0.9m).

14 Inventories

	2008 €'000	2007 €'000
Sundry inventory	514	874

15 Trade and other receivables

	2008 €'000	2007 €'000
Trade receivables	33,049	30,230
Other amounts receivable	50,395	30,753
Prepayments and accrued income	4,120	3,495
Value Added Tax	1,337	741
	88,901	65,219

The fair values 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.

At 31 December 2008, trade and other receivables of €3.4m (2007: €5.2m) 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:

	2008 €'000	2007 €'000
Up to 1 month past due	3,356	5,170
Over 1 month past due	-	-
	3,356	5,170

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:

	2008 €'000	2007 €'000
Euro	46,368	38,515
US dollar	30,614	24,353
UK pound	11,919	2,181
Other currencies	-	170
	88,901	65,219

Notes to the Consolidated Financial Statements

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16 Cash, cash equivalents and deposits

	2008 €'000	2007 €'000
Cash and deposits with maturity less than 3 months	6,081	4,953
Restricted cash	116,384	125,293
Deposits with maturity greater than 3 months	969,193	896,205
	1,085,577	1,021,498
Less non-current portion	(169,279)	(119,513)
Current	916,298	901,985
Total cash, cash equivalents and other deposits	922,379	906,938

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

Cash and deposits with an original maturity of less than 3 months	6,081	4,953
Bank overdrafts (Note 18)	-	(17,138)
	6,081	(12,185)

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

	2008 €'000	2007 €'000
Euro	611,291	757,532
US dollar	307,163	145,873
Pound sterling	1,861	1,439
Other	2,064	2,094
	922,379	906,938

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 and restricted cash'. The effective interest rate on financial assets classified as current deposits was 3.8% (2007: 4.6%). These deposits have an average maturity of 84 days (2007: 87 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.

17 Trade and other payables

	2008 €'000	2007 €'000
Trade payables	67,066	57,688
Accruals and deferred income	91,334	103,422
Ticket sales in advance	146,779	164,846
Employment related taxes	15,561	10,988
ESOT (Note 23)		
- profit sharing scheme	-	9,827
Other amounts payable	95,098	88,486
	415,838	435,257

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

18 Borrowings

	2008 €'000	2007 €'000
Bank overdraft		
Repayable – within one year	-	17,138
Finance lease obligations		
Repayable – within one year	104,949	24,807
– from one to two years	45,609	56,433
– from two to five years	92,037	121,280
– after five years	310,274	155,598
	552,869	358,118
Less current portion	(104,949)	(24,807)
Non-current portion	447,920	333,311
Total interest bearing loans and borrowings		
Current portion	104,949	41,945
Non-current portion	447,920	333,311
	552,869	375,256

Total borrowings include secured liabilities (bank and collateralised borrowings) of €552.9m (2007: €358.1). Bank borrowings are secured by various items of property, plant and equipment of the Group, mainly aircraft (Note 9).

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2008 €'000	2007 €'000
6 months or less	-	17,138
6-12 months	80,271	-
1-5 years	73,654	129,820
Over 5 years	398,944	228,298
	552,869	375,256

The maturity of non-current borrowings is as follows:

	2008 €'000	2007 €'000
Between 1 and 2 years	45,609	92,546
Between 2 and 5 years	92,037	85,167
Over 5 years	310,274	155,598
	447,920	333,311

Notes to the Consolidated Financial Statements

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18 Borrowings (continued)

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

	Carrying amounts		Fair values	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Finance lease obligations	447,920	333,311	407,708	337,569

The fair values are based on cash flows discounted using a rate based on prevailing forward market rates. In 2008, these rates ranged from 1.5% to 3.7%.

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

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

	2008 €'000	2007 €'000
Euro	59,512	81,582
US dollar	493,357	293,674
	552,869	375,256

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

	2008			2007		
	€	US\$	£	€	US\$	£
Bank overdrafts	-	-	-	-	-	-
Finance lease obligations	3.9%	3.7%	-	3.0%	3.8%	-

Finance lease obligations – minimum lease payments

	2008 €'000	2007 €'000
No later than one year	123,693	35,432
Later than one year but no later than five years	238,613	229,099
Later than five years	295,290	168,194
	657,596	432,725
Future finance charges on finance leases	(104,727)	(74,607)
Capital value of finance lease liabilities	552,869	358,118

The Group had no undrawn borrowing facilities at 31 December 2008 or 31 December 2007.

19 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	16,715	90,993
Provided during the year	129,207	18,777	-	1,034	149,018
Written back during the year	-	(4,497)	(8,716)	(2,001)	(15,214)
Finance charge on discounted provisions	-	-	453	-	453
Utilised during the year	(9,887)	(20,579)	-	(1,570)	(32,036)
Reclassifications	1,532	-	-	(1,532)	-
Translations adjustment	-	525	-	64	589
At 31 December 2008	129,498	51,595	-	12,710	193,803

Analysed as current liabilities

31 December 2008	129,498	27,501	-	205	157,204
31 December 2007	8,646	10,479	8,263	3,189	30,577

Analysed as non-current liabilities

31 December 2008	-	24,094	-	12,505	36,599
31 December 2007	-	46,890	-	13,526	60,416

Total provision – end of the year

31 December 2008	129,498	51,595	-	12,710	193,803
31 December 2007	8,646	57,369	8,263	16,715	90,993

(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. This provision is expected to be materially utilised within the coming year.

(b) Aircraft maintenance

A provision is made on 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. When aircraft leases expire and the aircraft pass into group ownership, the related maintenance provisions are transferred to fixed assets. If the aircraft does not pass into group ownership 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 the year.

(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 3 years. The 'post cessation of employment' obligations provision is accrued or utilised based on actuarial valuations carried out on an annual basis.

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20 Deferred taxation

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 deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2008 €'000	2007 €'000
Deferred income tax asset to be recovered after more than 12 months	41,608	27,291
Deferred income tax liability to be recovered after more than 12 months	(39,719)	(46,607)
Deferred income tax asset/(liability)	1,889	(19,316)

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

	2008 €'000	2007 €'000
Deferred income tax (liability)/asset at beginning of the year	(19,316)	3,338
Income statement credit/(charge)	11,881	(19,461)
Tax credited/(charged) directly to equity	9,324	(3,193)
Deferred income tax asset/(liability) at end of the year	1,889	(19,316)

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

Deferred tax assets

	Provisions €'000	Derivative financial instruments €'000	Tax losses €'000	Total €'000
At 1 January 2007	20,133	5,660	19,959	45,752
(Charged)/credited to income statement	(16,900)	(302)	1,458	(15,744)
(Charged) directly to equity	-	(2,717)	-	(2,717)
At 31 December 2007	3,233	2,641	21,417	27,291
Credited/(charged) to the income statement	5,719	(2,606)	2,156	5,269
Credited directly to equity	-	9,048	-	9,048
At 31 December 2008	8,952	9,083	23,573	41,608

Deferred tax liabilities

	Accelerated tax depreciation €'000	Available-for-sale financial assets €'000	Other €'000	Total €'000
At 1 January 2007	34,376	149	7,889	42,414
Charged to income statement	3,513	-	204	3,717
Charged directly to equity	-	415	61	476
At 31 December 2007	37,889	564	8,154	46,607
Charged/(credited) to the income statement	1,481	-	(8,093)	(6,612)
(Credited)/charged directly to equity	-	(369)	93	(276)
At 31 December 2008	39,370	195	154	39,719

	2008 €'000	2007 €'000
Deferred income tax credited/(charged) to equity during the year is as follows:		
Fair value reserves in shareholders' equity		
- Cash flow hedging reserve	9,048	(2,717)
- Revaluation reserve on available-for-sale financial assets	369	(415)
Share based payment reserve	(93)	(61)
	9,324	(3,193)

21 Called-up share capital

	2008 €'000	2007 €'000
Authorised:		
900,000,000 ordinary shares of €0.05 each	45,000	45,000
Issued and fully paid:		
Beginning of year	26,575	26,450
Issued during year: 2,449,097 @ €0.05 each	123	-
Issued during 2007: 2,514,819 @ €0.05 each	-	125
End of year	26,698	26,575

In April 2008, 52,138 shares were issued in respect of an allotment of shares to satisfy Bonus Share Incentive entitlements entered into at the time of the parent's Initial Public Offering. In May 2008, 2,396,959 shares were issued in respect of the Group's Long Term Incentive Plan (LTIP), for the vesting period ending 31 December 2010.

The total number of ordinary shares of €0.05 each in issue at 31 December 2008 was 533,954,468 (2007: 531,505,371 shares), of which 4,208,327 (2007: 1,811,368) were treasury shares.

22 Share premium, capital conversion reserve fund, and other reserves

	2008 €'000	2007 €'000
Share premium		
Beginning of year	502,108	497,958
Shares issued at premium	4,742	4,185
Issue of bonus shares	(3)	(35)
End of year	506,847	502,108
Capital conversion reserve fund		
Balance at beginning and end of year	5,048	5,048
Capital redemption reserve fund		
Balance at beginning and end of year	343,516	343,516

Notes to the Consolidated Financial Statements

continued

22 Share premium, capital conversion reserve fund, and other reserves (continued)

	2008 €'000	2007 €'000
Other reserves		
<i>Available-for-sale reserve</i>		
Beginning of year	3,953	1,053
Movement in year	(1,080)	3,315
Deferred tax on movement in year	369	(415)
End of year	3,242	3,953
<i>Cash flow hedging reserve</i>		
Beginning of year	(261)	(19,263)
Movement in year	(72,381)	21,719
Deferred tax on movement in year	9,048	(2,717)
End of year	(63,594)	(261)
<i>Treasury shares</i>		
Beginning of year	(4,275)	-
Purchase of shares	(4,862)	(4,275)
End of year	(9,137)	(4,275)
<i>Share based payment reserve</i>		
Beginning of year	439	-
Movement in year	735	500
Deferred tax on movement in year	(93)	(61)
End of year	1,081	439
Total other reserves	(68,408)	(144)

Long Term Incentive Plan ("The 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.

Early vesting of an award may occur at the discretion of the Remuneration Committee if there were to be a change of control in the Company.

For awards issued in 2008, 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 2008 amounted to 1,917,567 ordinary shares (2007: 1,449,094). The share price was €2.03 (2007: €2.36) at the date of the award and fair value was determined to be €1.55 (2007: €1.08).

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 €735,000 reported in the Group 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 Group income statement

The total expense is analysed as follows:

	Expense in consolidated income statement
2008 Long Term Incentive Plan	
Staff costs	€735,000

The 2008 awards will expire in 2010.

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:

	2008	2007
Risk free interest rate	4.23%	4.39%
Expected volatility	35%	28%
Dividend yield	0%	0%

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

Impact on Group balance sheet

ALG Trustees Limited ("The Trust") was retained during the year to manage the LTIP. The Trust purchased 1,811,368 shares on 1 November 2007 at a cost of €4,274,828. The Trust purchased a further 2,396,959 shares in May 2008 at a cost of €4,862,133. As at 31 December 2008, the Trust held 4,208,327 ordinary shares.

The Trust was consolidated in the Group accounts and these shares were accounted for as Treasury Shares in the consolidated balance sheet.

23 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 the purchase by the ESOT of shares previously held by staff under an Approved Profit Sharing Scheme (APSS), the ESOT held 12.47% of the issued share capital of the Company at 31 December 2008 (31 December 2007: 12.53%).

The ESOT is also trustee of the Aer Lingus Approved Profit Sharing Scheme and, at 31 December 2008, held 9,397,900 shares (1.76%) (31 December 2007: 9,454,969 shares (1.78%)) 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 the 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. This profit share is to be used by the ESOT to pay any expenses and to repay all borrowings arising from the exercise of the option granted at the time of the IPO.

Notes to the Consolidated Financial Statements

continued

24 Pensions and other post employment benefits

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

The Group and employees contribute a fixed percentage of salaries each year to these schemes, which does not vary according to the funded 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 cost 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.

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

The Group's contributions charged for the year were €29.3m (2007: €23.5m), based on rates specified by the scheme 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.

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

25 Financial commitments

(a) Capital commitments

At 31 December the Group had capital commitments as follows:

	2008 €'000	2007 €'000
Contracted for but not provided		
- Aircraft and equipment	1,070,761	122
- Other	2,162	3,625
	1,072,923	3,747
Authorised but not contracted for	74,807	14,316
	1,147,730	18,063

(b) Lease commitments

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

26 Related party transactions**Key management compensation**

	2008	2007
	€'000	€'000
Short-term employee benefits	1,962	3,090
Post employment benefits	332	281
Directors fees	87	90
Other benefits	271	270
	2,652	3,731

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 2008 LTIP. In respect of the key management included above, a total amount of €424,000 has been charged.

Amounts due from subsidiary undertakings are disclosed in Note 29.

27 Cash generated from operations

	2008	2007
	€'000	€'000
(Loss)/profit before tax	(119,696)	124,726
Adjustments for:		
- Depreciation (Note 9)	69,558	63,664
- Amortisation (Note 10)	2,307	5,635
- Net movements in provisions for liabilities and charges	(13,084)	(14,690)
- Net fair value losses on derivative financial instruments	945	40
- Finance income (Note 5)	(60,860)	(65,143)
- Finance cost (Note 5)	22,018	22,572
- Net exceptional items (Note 4)	140,888	(3,517)
- Other (gains)/losses – net (Note 3)	(8,796)	8,880
Changes in working capital		
- Inventories	360	(140)
- Trade and other receivables	(16,329)	181
- Trade and other payables	(25,938)	20,914
Payment to supplemental pension arrangements	-	(104,000)
Cash generated from operations	(8,627)	59,122

Notes to the Consolidated Financial Statements

continued

28 Financial assets

Investment in subsidiaries

	2008 €'000	2007 €'000
Cost		
Beginning of year	109,696	328,367
Movement in year	-	(218,671)
End of year	109,696	109,696

The movement in 2007 related to intra group transfer of subsidiaries.

Details of the principal group companies are included in Note 11.

29 Trade and other receivables – Company

	2008 €'000	2007 €'000
Amounts due from subsidiary undertakings	810,650	805,788

The fair value of trade and other receivables equate to their book value at 31 December 2008 and 2007. The maximum exposure to credit risk is the fair value of the trade and other receivables above. There was no impairment of these trade and other receivables at 31 December 2008 and 2007.

30 Events after the balance sheet date

There have been no significant events, outside of the ordinary course of business, affecting the Group since 31 December 2008.

Shareholder Information

2009 Financial Calendar

Annual General Meeting	5 June 2009
2009 H1 Period Ends	30 June 2009
2009 H1 Results	August 2009
2009 FY Ends	31 December 2009

Share Price Data

	2008
	€
Share price movement between listing and year end	
- High	2.42
- Low	0.985
Share price at 31 December 2008	1.53
Market capitalisation at 31 December 2008	816.9m
Share price at 27 April 2009	0.69
Market capitalisation at 27 April 2009	369.5m

Shareholder Analysis at 27 April 2009

Range of shares held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	511,960,317	95.88	79	2.24
100,001 – 250,000	4,632,843	0.87	27	0.77
10,001 – 100,000	7,409,267	1.39	305	8.64
Up to 10,000	9,952,041	1.86	3,117	88.35
Total	533,954,468	100.00	3,528	100.00

Share Listings

Aer Lingus' shares are traded on the Irish Stock Exchange and the London Stock Exchange and are quoted on the official lists of both the Irish Stock Exchange and the UK Listing Authority.

ISIN: IE00B1CMPN86

ISE Xetra: Aer Lingus Group plc

MNEM - ISE: EIR1

MNEM - LSE: AERL

Bloomberg: AELGF

Reuters: AERL.I, AERL.L

CREST

Aer Lingus Group plc is a member of the CREST share settlement system. Shareholders may continue to hold paper share certificates or hold their shares in electronic form.

Electronic Proxy Voting and CREST Voting

Shareholders may lodge a proxy form for the 2009 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.

Shareholder Information

continued

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:

Mark Kenny / Jonathan Neilan

K Capital Source

T: +353 1 663 3680 E: aerlingus@kcapitalsource.com

Registered Office and Number

Number: 211168

Dublin Airport

Co Dublin

Ireland

Registrars

For all queries on shareholdings please contact our registrars:

Capita Registrars (Ireland) Limited

Unit 5 Manor Street Business Park

Manor Street

Dublin

Ireland

T: +353 1 810 2400

F: +353 1 840 2422 E: enquiries@capitaregistrars.ie

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)
Sean Coyle	(Chief Financial Officer)
Laurence Crowley	(Senior Independent Director)
David Begg	(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)
Anne Mills	(Non-executive Director)
Thomas Moran	(Non-executive Director)

Company Secretary

Donal Moriarty

Auditors

PricewaterhouseCoopers

Chartered Accountants

One Spencer Dock

North Wall Quay

Dublin 1

Ireland

Legal Advisors

Arthur Cox

Earlsfort Terrace

Dublin 2

Ireland

Sponsors

Goodbody Corporate Finance

Ballsbridge Park

Ballsbridge

Dublin 4

Ireland

Operating and Financial Statistics

For the year ended 31 December 2008

	2008	2007	% change
Long haul			
Number of routes flown	11	11	-
Number of sectors flown (flights)	5,939	5,322	11.6%
Average sector length (in kilometres)	5,764	5,600	2.9%
Number of passengers (in thousands)	1,264	1,235	2.3%
Average fare (including airport charges/taxes) (in €)	304.49	296.87	2.6%
Average block hours per aircraft per day	14.3	14.0	2.1%
RPKs (in millions)	7,168	6,790	5.6%
ASKs (in millions)	10,042	8,890	13.0%
Passenger load factor (flown RPKs per ASKs)	71.4%	76.4%	(5.0pt)
Average number of Seat Equivalents	3,375	3,042	10.9%
Utilisation (ASKs per Seat Equivalents in millions)	2.98	2.92	2.1%
Average number of aircraft	9.0	8.1	11.1%
Short haul			
Number of routes flown	95	84	13.1%
Number of sectors flown (flights)	66,831	60,217	11.0%
Average sector length (in kilometres)	1,017	981	3.7%
Number of passengers (in thousands)	8,737	8,070	8.3%
Average fare (including airport charges/taxes) (in €)	87.75	93.77	(6.4%)
Average block hours per aircraft per day	10.4	10.1	3.0%
RPKs (in millions)	9,109	8,017	13.6%
ASKs (in millions)	12,328	10,743	14.8%
Passenger load factor (flown RPKs per ASKs)	73.9%	74.6%	(0.7pt)
Average number of Seat Equivalents	6,103	5,526	10.4%
Utilisation (ASKs per Seat Equivalents in millions)	2.02	1.94	4.1%
Average number of aircraft	32.6	29.4	10.9%
Other Operating Data			
RTKs (in millions)	1,626	1,490	9.1%
ATKs (in millions)	2,488	2,183	14.0%
Scheduled cargo tonnes	27,944	27,111	3.1%

Notes



"The real asset to Aer Lingus are their crew, everything done with a smile, nothing seemed too much bother, making a genuine effort with the passengers and a sense that they really enjoyed what they were doing."



Aer Lingus 