Aer Lingus

ANNUAL REPORT 2014

Contents

Financial Highlights

For the year ended 31 December 2014

Results		**2014**	2013	Change [1]
Revenue	**€m**	**1,556.9**	1,425.1	9.2%
EBITDAR [(2)]	**€m**	**227.6**	189.2	20.3%
Operating profit before net exceptional items [(2)]	**€m**	**72.0**	61.1	17.8%
Net exceptional items	**€m**	**(180.3)**	(17.4)	n/m[(3)]
Operating (loss)/ profit after net exceptional items [(2)]	**€m**	**(108.4)**	43.8	(347.5%)
Net finance expense	**€m**	**(3.8)**	(4.2)	9.5%
Share of profit/(loss) in joint venture	**€m**	**0.6**	-	n/m[(3)]
Income tax credit/ (charge)	**€m**	**15.7**	(5.5)	385.3%
(Loss)/ profit for the year	**€m**	**(95.8)**	34.1	(381.0%)
Total equity	**€m**	**660.6**	852.8	(22.5%)
(Loss)/ profit per share	**€cent**	**(18.0)**	6.4	(381.0%)
Gross cash [(2) (5)]	**€m**	**935.5**	897.4	4.2%
Gross debt [(2)]	**€m**	**390.2**	477.6	18.3%
Net cash [(2)]	**€m**	**545.3**	419.8	29.9%
Key financial statistics				
Average fare revenue per seat	**€**	**98.93**	90.43	9.4%
Average fare revenue per passenger	**€**	**131.17**	121.62	7.9%
Passenger fare revenue per ASK	**€cent/ ASK**	**6.29**	6.19	1.6%
EBITDAR margin	**%**	**14.6%**	13.3%	1.3 ppts
Operating margin	**%**	**4.6%**	4.3%	0.3 ppts
Return on equity (ROE) [(2)]	**%**	**9.1%**	6.7%	2.4 ppts
Key operating statistics [(4)]				
Passengers carried	**'000's**	**9,766**	9,625	1.5%
Revenue Passenger Kilometres (RPK)	**m**	**16,088**	14,807	8.7%
Available Seat Kilometres (ASK)	**m**	**20,373**	18,898	7.8%
Passenger load factor	**%**	**79.0%**	78.4%	0.6 ppts

The trading results set out above and within certain tables in this document are presented in euro rounded to the nearest thousand; therefore discrepancies in the tables between totals and the sum of the amounts listed may occur due to such rounding.

1 Sign convention: favourable / (adverse)

2 These metrics are defined in the explanation on the use of non-IFRS measures later in this document

3 Not meaningful

4 Key operating statistics relate to mainline operations and exclude Aer Lingus Regional and contract flying activities

5 Gross cash includes restricted cash of €211.7 million, of which €190.7 million relates to the once-off pension solution placed in escrow as at 31 December 2014 and which will be released over time on the receipt of correctly executed waivers by current and former employees

Use of non-International Financial Reporting Standards ("IFRS") measures

In discussion of our full year financial results for 2014, we refer to a number of non-IFRS financial measures at various points in this annual report. These non-IFRS measures are set out below along with an accompanying description and where appropriate, reconciliation to the relevant IFRS measure. These non-IFRS measures are used to assist an understanding of 2014 performance.

Non-IFRS measure	Basis of calculation	Reason for use
EBITDAR	Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation and Aircraft operating lease Rental	As EBITDAR is a pre-depreciation and lease rental measure, it is widely used by airline sector analysts and other commentators to compare performance of airlines that have differing fleet ownership models
Operating profit	Operating profit is defined as revenue less operating costs, before net exceptional items arising within these captions. It therefore excludes finance income and expense, the results of joint ventures and tax. These items are excluded since they largely represent the impact of market conditions on the Group's investing and financing activities, as opposed to the results arising from the operation of the airline. Exceptional items are also presented separately to assist in understanding the Group's underlying financial performance. Operating margin is defined as operating profit expressed as a percentage of revenue	Operating profit is a commonly used financial measure which is not defined in IAS 1, *Presentation of Financial Statements*. The Group uses operating profit as a key internal measure and this figure is also provided in the income statement because the Directors believe that presenting the financial result at this level provides users of the financial statements with a better understanding of the Group's underlying trading performance
Free cashflow	Cash generated from operating activities adjusted for FX in deposits, less net capital expenditure (purchases of fixed assets exclusive of finance lease debt raised less proceeds from disposals) plus or minus net interest received/paid	Free cashflow is used by some airline sector analysts and other commentators as a measure of the cash generated by a business. It measures cash flow after capital expenditure to maintain operations but before "discretionary" spend such as dividends
Gross cash	Cash and cash equivalents, bank overdrafts, cash deposits and formerly available for sale bonds held by the Group	Gross cash is the measure used most commonly by management to indicate the level of financial resources available to the Group
Gross debt	Total finance leases plus any other debt	Gross debt is the measure used most commonly by management to indicate the level of indebtedness borne by the Group
Net cash/ debt	Total gross cash less total gross debt	Net cash/ debt is a measure used by management to indicate the cash position after indebtedness of the Group
Constant currency passenger fare revenue	Current year passenger fare revenue generated in foreign currencies is retranslated at respective prior year FX rates and compared to current year foreign currency derived passenger fare revenue at respective current year FX rates	The Group generates approximately half of passenger bookings outside Ireland. This results in more of our total passenger fare revenue being receivable in currencies other than the euro, our reporting currency. Movements in FX rates cause variances in total passenger fare revenue outside of normal volume and fare yield. Constant currency calculation allows for a more informative comparison of passenger fare revenue on an overall year-on-year basis
Return on equity	Profit before taxation and net exceptional items expressed as a percentage of the average opening and closing book value of equity	Return on equity is a measure used by management to assess returns generated by the business for shareholders

EBITDAR - €million	**2014**	2013
Operating profit before net exceptional items	**72.0**	61.1
Add back:		
Depreciation & amortisation	**90.0**	82.9
Aircraft operating lease costs	**65.7**	45.2
EBITDAR	**227.6**	189.2

Free cashflow - €million	**2014**	2013
Cash generated from operating activities (before FX on deposits)	**202.7**	112.2
Net capital expenditure	**(55.3)**	(31.4)
Net interest paid	**(0.8)**	(4.5)
Free cashflow	**146.6**	76.3

Chairman's Introduction

Dear fellow shareholders,

I am pleased to report that in terms of operating profitability, 2014 was Aer Lingus' most successful year since the financial crisis. The inherent strength of our business model is evident in the 9.2% increase in revenue, 17.8% increase in operating profit (before net exceptional items) and 0.3 percentage point increase in operating margin achieved year-on-year. Aer Lingus finished 2014 in very strong financial shape with net cash of €545.3 million, up 29.9% from our net cash balance at the end of 2013.

In January 2015 International Consolidated Airlines Group ("IAG") made a proposal to acquire 100% of the shares in the Company for a total price of €2.55 per share (comprising €2.50 in cash and a five cent dividend).

Commercial and strategic highlights

During 2014 the following significant commercial and strategic objectives were realised:

- **Route developments:** Aer Lingus re-commenced its operations from Dublin to San Francisco and commenced operating from Dublin to Toronto. In 2015 we will increase the San Francisco operation to a daily service and will also commence operations to Washington D.C. These transatlantic operations have been made possible by our initiatives to increase connectivity at each end of the routes, and particularly due to the increased synchronization and marketing of our transatlantic and European operations. Our transatlantic passenger numbers have increased by 35% in the last two years.

- **Aircraft order:** We have confirmed our agreement with Airbus to take delivery of nine new A350-900 aircraft between 2018 and 2020. These aircraft will progressively replace our existing A330 fleet in addition to expanding our capacity. At list prices this order is valued at approximately US$2.7 billion.

- **Heathrow terminal move:** In July we moved from Terminal 1 to Terminal 2 at London Heathrow Airport. This move provides significant benefits to our customers and improves the overall Heathrow travel experience.

- **Cost Optimisation and Revenue Excellence ("CORE") programme:** We concluded several commercial initiatives under our CORE programme. In 2015, Aer Lingus will seek annual cost reductions totalling €40 million under CORE, an increase of €10 million compared to the original target announced in early 2014.

Resolution of pension funding issues

By the end of 2014, Aer Lingus Limited had agreed solutions with relevant parties to address the funding difficulties facing the Irish Airlines (General Employees) Superannuation Scheme (the "IASS"), the pension scheme in which the majority of the Group's employees are members.

During the year, Aer Lingus reached agreement with the IASS Trustee, the Irish Congress of Trade Unions and the trade unions in relation to a solution to the IASS issues and Aer Lingus' shareholders approved this solution on 10 December 2014. On 23 December 2014 the Pensions Authority approved an application by the IASS Trustee to reduce IASS benefits so that the Irish statutory "Minimum Funding Standard" could be satisfied. Concurrently, Aer Lingus transferred €190.7 million into an escrow structure that will pay into new defined contribution schemes for active and deferred IASS members progressively as each member signs an individual waiver.

The solution to address the issues arising from the funding difficulties in the IASS provides several benefits for Aer Lingus. Specifically, the solution:

- Puts future pension provision for Aer Lingus employees on a sustainable footing;
- Provides clarity to the financial and legal impact of funding issues in the IASS;
- Reduces industrial relations risk at Aer Lingus; and
- Stabilises certain future staff costs over a multi-year period.

Aer Lingus Limited has also been involved in a separate set of discussions concerning the the Irish Airlines (Pilots) Superannuation Scheme, a single employer scheme for Aer Lingus pilots. In 2014, Aer Lingus engaged in discussions regarding this scheme with its trustee and the Irish Airline Pilots Association. The parties agreed a form of funding proposal that does not involve any contribution from Aer Lingus and this proposal was approved by the Pensions Authority on 3 December 2014.

Ryanair shareholding

On 28 August 2013, the UK Competition Commission issued its final report on its investigation into Ryanair's shareholding in Aer Lingus. Following a detailed investigation, the commission concluded that Ryanair's 29.81% shareholding is anti-competitive and that it must sell it down to no more than 5%. Ryanair subsequently launched appeals to the Competition Appeals Tribunal and the UK Court of Appeal. These appeals were rejected. Ryanair's latest appeal to the UK Court of Appeal was rejected on 12 February 2015 and the court also refused permission for Ryanair to appeal to the Supreme Court. Ryanair has since applied to the Supreme Court for permission to appeal to that court. It is not known when this request will be considered or whether the Supreme Court will grant such permission to appeal. Separately, Ryanair has filed an application with the UK Competition and Markets Authority ("CMA") requesting that it considers whether there has been a material change of circumstances since the final report in view of the proposed offer by IAG. The CMA has commenced a consultation process in relation to this application.

Potential IAG offer

On 27 January 2015, the Board of Directors of Aer Lingus (the "Board") announced that it had received a proposal from IAG. The Board indicated to IAG that the financial terms of IAG's proposal valuing each Aer Lingus share at €2.55 (comprising a cash offer of €2.50 and a dividend of €0.05 per share) were at a level that the Board would be willing to recommend, subject to being satisfied with the manner in which IAG proposed to address the interests of relevant parties.

The Revised Proposal is conditional on, amongst other things, confirmatory due diligence, the recommendation of the Board of Aer Lingus and the receipt of irrevocable commitments from Ryanair Limited and the Minister for Finance of Ireland to accept the offer, all of which may be waived in whole or in part by IAG.

The Board believes that the financial terms of the Revised Proposal are in the best interests of Aer Lingus' shareholders and that a combination of Aer Lingus with IAG has a compelling strategic rationale, delivering significant benefits for Aer Lingus, its employees, its customers and for Ireland. In particular, the combination will:

Accelerate Aer Lingus' growth plans
- The growth in Aer Lingus' transatlantic traffic will be accelerated and new US destinations will to be added to the network.
- Aer Lingus' European services, including on the Dublin, Cork and Shannon to London Heathrow routes, will benefit from sales and marketing activity conducted by the British Airways, Iberia, Vueling and oneworld sales forces.
- European services will also benefit from increased connections onto the transatlantic network.

Grow employment
- Additional traffic and destinations will create a significant number of new highly skilled jobs in Aer Lingus.
- Additional air traffic to and through Ireland will result in new indirect jobs in support activities and the tourism sector.

Strengthen Ireland's connectivity
- The benefits to the Aer Lingus network of being part of the larger IAG network will result in better connectivity to and from Ireland.
- Increased traffic on routes between Ireland and London Heathrow will enhance the viability of all of these routes.

Provide access to a global cargo network
- Aer Lingus' cargo business will benefit from the global network reach and sales channels of IAG's cargo business.
- Increased scope in Aer Lingus' cargo operations will provide significant benefits and additional options to Irish businesses, in particular the pharmaceutical and semi-conductor industries.

IAG has confirmed its intention to preserve Aer Lingus as a separate operating business with its own brand, management, head office and operations.

Returns to shareholders

Given Aer Lingus' improved financial performance in 2014, the Board of Directors is recommending an increase in the annual dividend from four cent per share (paid in respect of 2013) to five cent per share (payable in respect of 2014). This proposed dividend will be payable to shareholders in May 2015 regardless of whether the proposed IAG offer proceeds. In the event that the IAG offer does proceed, the proposed dividend will equate to the cash dividend of five cent per share which is part of the IAG offer.

It is proposed that the dividend would be paid as a final dividend. The proposed dividend will represent a yield of 2.3% on our 31 December 2014 share price of €2.21. The Aer Lingus 2014 Total Shareholder Return was 49.1%.

Board and management developments

There were a number of changes to our Board in 2014 and in early 2015.

Andrew Macfarlane, CFO and Executive Director, resigned during 2014. I would like to thank Andrew for his valuable contribution to Aer Lingus during his time with the Company.

Bernard Bot was appointed CFO and as an Executive Director in September 2014. Bernard brings significant experience in the transport and logistics sectors and his experience complements the skills of our existing strong management team and Board.

Christoph Mueller stepped down as CEO and Executive Director on 28 February 2015. I would like to thank Christoph for his excellent service and positive contributions since 2009. Under his leadership, Aer Lingus has been transformed into a strong, consistently profitable airline with a resilient business model and a much improved cost base. Christoph has placed Aer Lingus in a strong position for the benefit of all Aer Lingus' stakeholders.

Stephen Kavanagh was appointed CEO and Executive Director with effect from 1 March 2015. Stephen has worked in Aer Lingus for over 26 years in a range of increasingly challenging roles and he has a commanding knowledge of both the Company and the airline industry. I am particularly pleased that an existing Aer Lingus executive has succeeded to the position of CEO.

David Begg, Francis Hackett and Colin Hunt retired as Non-Executive Directors following expiry of their terms of appointment. I would like to thank all of them for their significant contributions to Aer Lingus during their terms as Directors.

Emer Gilvarry, John Hartnett, Nigel Northridge and Nicolás Villén have joined the Board as independent Non-Executive Directors and Frank O'Connor was nominated by the Minister for Transport, Tourism and Sport as a Non-Executive Director. These five new Directors bring deep experience to our board from the legal, consumer goods, infrastructure and technology sectors.

Conclusion

2014 was a good year for Aer Lingus. To enhance these results and to accelerate Aer Lingus' growth, it is the Board's strong belief that the financial terms of IAG's proposal is in the best interests of shareholders and that the prospect of Aer Lingus being part of the IAG Group has a compelling strategic rationale for the Company. In this combination Aer Lingus will operate as a separate business while gaining access to IAG's extensive network and benefiting from its scale. These benefits will de-risk Aer Lingus' future, strengthen its operations and customer appeal and provide greater opportunities and security for its employees.

As always, I would like to express my sincere thanks to all our customers, our excellent Aer Lingus staff and management, my fellow Directors and to you, our shareholders, for your continued support of Aer Lingus.

Sincerely,

COLM BARRINGTON
Chairman

27 March 2015

Chief Executive Officer's Review

Dear fellow shareholders,

Our 2014 results, with our operating profit (before net exceptional items) up 17.8% to €72 million, demonstrate the underlying strength in our business. The continued expansion of our transatlantic services, resilient short-haul performance, combined with improved contribution from cargo and contract flying units provides us with a strong foundation. Our operating loss (after net exceptional items) was €108.4 million as a result of €180.3 million of exceptional items, mainly related to the resolution of the IASS pension issues.

Turning to the potential offer from IAG to acquire 100% of Aer Lingus, the Board and management team of Aer Lingus are strongly of the view that a combination of Aer Lingus and IAG has a compelling strategic rationale and will deliver significant benefits to all stakeholders in Aer Lingus.

In a combination with IAG, Aer Lingus would benefit from the revenue that would flow from membership of the Atlantic Joint Business with British Airways and American Airlines and broader oneworld alliance. We would retain our brand, location and independence as an operating company within IAG while benefiting from all the cost advantages of scale that such a combination will deliver.

A combination with IAG has compelling rationale but this does not detract from our ability to grow a strong Aer Lingus on a stand-alone basis. It simply reflects the significantly increased opportunity for accelerated growth and success that a combination with IAG would deliver.

Trading highlights

2014 was a good year for Aer Lingus with a resilient short haul performance and successful long haul expansion. Our combined total revenue including passenger, cargo and contract flying activities generated 9.2% higher revenues compared to 2013 and our operating margin increased to 4.6%.

In short haul, we realised strong passenger growth in the peak season and we protected revenue quality and load factors throughout the full year. Passenger volumes in the peak second and third quarters of the year were 2.0% higher than prior year despite a highly competitive market environment and the effect of industrial disruption. In the off-peak winter season, we tactically reduced short haul capacity by 7.7% in order to protect margins and focus on the performance of our core European routes.

In long haul, our transatlantic service drove significant passenger growth at higher yields and load factors. We launched additional Shannon-based services to Boston and New York in February and March 2014 as well as new long haul services to San Francisco and Toronto in April 2014. All long haul routes performed strongly throughout the peak summer months and into winter 2014. Long haul passenger fare revenue grew by 28.4%.

Over the course of the year we operated profitably in an intensely competitive market environment and responded successfully to industrial disruption. In June 2014, the Group issued a trading update revising guidance downwards but by the end of July 2014 we were in a position to upgrade our guidance. Further recovery actions and improvements in the trading environment throughout the late summer months allowed us to upgrade guidance again in November 2014. Ultimately our operating profit (before net exceptional items) exceeded this guidance, increasing by 17.8% to €72.0 million for full year 2014.

Commercial developments

In 2014, we introduced three Boeing 757 aircraft, on a "damp lease" basis, to operate Shannon to Boston and New York and Dublin to Toronto services. We plan to further expand our long haul services in 2015 and as of May 2015 we will deploy an incremental A330-200 on an operating lease basis, in support of increased transatlantic frequencies. We will also operate a "wet leased" Boeing 767 during the 12 week peak summer period commencing in June 2015. This aircraft will add capacity on our Shannon to Boston route, while also freeing up one aircraft to commence a third daily Dublin to New York service.

Between 2018 and 2020, we expect to take delivery of nine A350-900 aircraft (A350XWB or Regional variant). These aircraft will progressively replace our existing A330 fleet in addition to expanding our long haul capacity. Now that this aircraft order is confirmed, we will next consider the most appropriate form and amount of financing to support this investment. Further announcements on this subject will be made as appropriate.

Short haul fleet

We have completed a detailed evaluation of our short haul fleet strategy. In the medium term, we will seek to extend lease terms on appropriate aircraft and selectively replace our oldest aircraft.

London airport developments

In July 2014 we moved from Terminal 1 to Terminal 2 in London Heathrow. This move provides significant benefits for our customers, improving the overall Heathrow travel experience. Our customers can now access a new and modern airport lounge, seamlessly transfer to connections with several of the Group's partner airlines and benefit from an estimated 50% reduction in gate to kerb time. We continue to receive positive feedback on the benefits of this move.

Cost Optimisation and Revenue Excellence ("CORE") programme

The CORE programme was launched in early 2014 to continue Aer Lingus' product differentiation and price competitiveness in a market in which competitors are increasingly seeking to emulate our successful "*value carrier*" model. Significant progress was achieved in 2014, particularly with regard to several revenue initiatives. However, staff related efficiency measures were largely deferred in the context of efforts to resolve IASS pension funding difficulties.

Several commercial initiatives successfully concluded in 2014. For example, we introduced the "*26 booking classes*" and "*Fare First*" initiatives, which have increased the options available to our revenue management team. We also launched our new long haul business class proposition in 2014. This will include "fully lie flat" beds on our A330 fleet and in-flight services attuned to the time of day at which the flight occurs. These new services will be fully introduced with our summer 2015 schedule.

Further commercial initiatives will be fully implemented in early 2015 including:

- Arrivals lounge in Dublin airport (Q2 2015)
- New lounge in JFK (Q1 2015)
- Website and mobile app re-launch (H1 2015)
- New loyalty, recognition and reward programme to replace the current "Gold Circle" frequent flyer programme (launch planned in 2015, to be fully implemented from Q1 2016)

The focus on cost and business process optimisation continued over the course of 2014, with preparations now complete to transform various support functions into strategic business units. We also identified specific staff productivity opportunities that will be realised through a number of initiatives including the launch of a new voluntary severance programme in early 2015.

In overall terms, Aer Lingus will seek cost reductions totalling €40 million under CORE, an increase of €10 million compared to the original target of €30 million announced in early 2014. Further details will be announced as appropriate.

People achievements

In 2014 we continued to invest in our people with a number of successful initiatives and programmes:

- Leadership Development and Supervisor Development Programmes
- Customer Service Programmes for our in-flight services and ground operations teams
- New Commander and Cadet pilot programmes in the flight operations area
- New maintenance and engineering apprentice scheme

Positive engagement with our staff is crucial to the continued success of Aer Lingus. In overall terms, staff engagement remains broadly stable on a year-on-year basis and we have identified a number of areas for further improvement.

2015 outlook

Aer Lingus is currently in an offer period as defined by the Irish Takeover Rules. The Group is therefore not issuing specific guidance with regard to 2015 operating profit performance while it remains in this offer period.

Preparing for the future

Our immediate challenge will be to maintain and improve the level of profitability achieved in 2014 through 2015 and beyond. We are a demand led business and must compete for our customers on a daily basis. With this in mind we will continue to focus on delivering best in class customer service, cost management, and realise an objective to keep it simple. I will work diligently over the coming months to support our achievement of these goals.

We will continue to implement our demand-led strategy in 2015. Specifically we will:

- Maintain short haul profitability in the context of a highly competitive environment with an emphasis on maximising the contribution earned during the peak seasonal period and leveraging the opportunities represented by our load factor position, network quality and schedule position at primary airports;
- Drive additional unit cost reductions through the re-launched CORE programme;
- Achieve operational and organisational best practice;
- Pursue disciplined long haul growth while maintaining stable load factors and yield. The introduction of an additional A330 aircraft into our fleet from May 2015 as well as a Boeing 767 on a short term lease for the peak 12 week 2015 summer season will increase long haul seat capacity by 13%;
- Grow retail revenue streams with the medium term objective of achieving retail spend per passenger of €23.00; and
- Deliver on our customer promise with further improvements in targeted net promoter score and on-time departure and arrival metrics.

Conclusion

2014 was a good year for Aer Lingus with strong performances across our businesses. We profitably expanded our long haul network utilising our cost advantage, favourable geographic position and network strength. In 2014 we also resolved significant and long running pension funding issues which had adversely impacted our share price performance and employee relations environment for the last number of years.

Our challenge in 2015 will be to build on these foundations to improve profitability and create shareholder value. We remain committed to delivering on our value proposition of quality service at competitive cost and thank you for your continued support.

Sincerely,

STEPHEN KAVANAGH
Chief Executive Officer

27 March 2015

Operating review and key performance highlights

The following describes in turn, the key elements of Aer Lingus' business model:

- Markets and competition
- Strategy
- "Value carrier" operating model
- Results

Our markets and competition

Aer Lingus does not seek to create markets and is instead a demand-led airline serving existing demand in our key markets

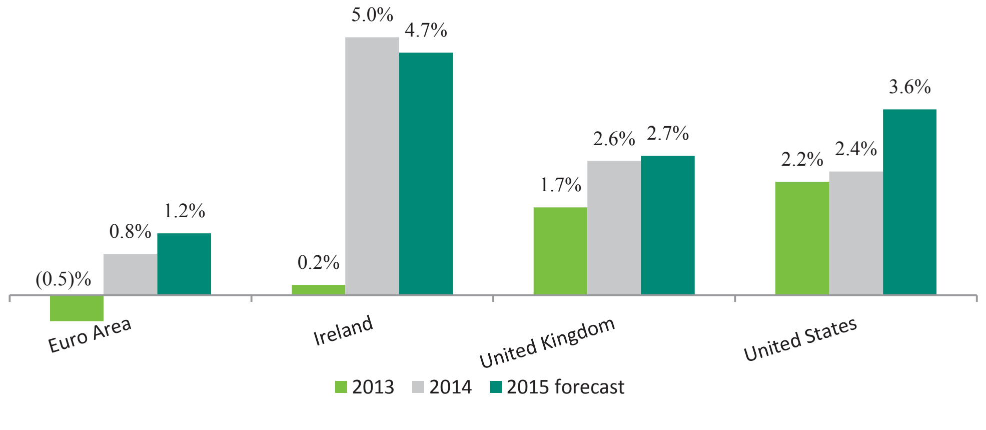
Aer Lingus operates in both the European short haul and transatlantic long haul markets which represented 86.4% and 13.6% of total 2014 mainline passengers in 2014, respectively. Aer Lingus serves both point-to-point traffic as well as increasingly serving passengers wishing to use the Dublin transatlantic hub to travel to destinations either behind or beyond this gateway in Europe and North America.

The Irish air travel market primarily comprises of passengers travelling for leisure and non-time sensitive reasons. Time sensitive business passengers comprise circa 17% of the total Dublin airport market, circa 3% lower than the percentage of time sensitive passengers travelling on Aer Lingus services. These travel factors influence the design of our business model.

Demand for Aer Lingus services is strongly linked to the fundamental strength of the Irish, UK, European and North American economies. Our primary geographical market is Ireland which provides exposure to the strengthening Irish economy. Other key markets include the UK, North America, Germany, France, Benelux and Spain.

Passenger growth tends to correlate with GDP growth over time as economic conditions affect our customers' available spending capacity and their propensity to apply that spending capacity on air travel. In 2014, real GDP growth in the Irish market increased to 5.0% driven by strong demand for Irish exports and recovery in consumer confidence. In December 2014, the KBC/ESRI Consumer Sentiment Index (which measures both how consumers view the present situation and their prospects over the next 12 months) increased to 90.5 points, up 10.7 points compared to December 2013. There are other encouraging signs of improvement with unemployment decreasing to 10.6% in December 2014, down 1.6% on a year-on-year basis (Source: CSO Live Register). Similar levels of GDP growth are expected to be maintained across Aer Lingus' main markets in 2015.

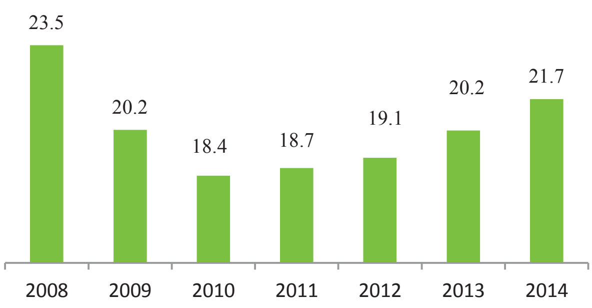
GDP growth percentage



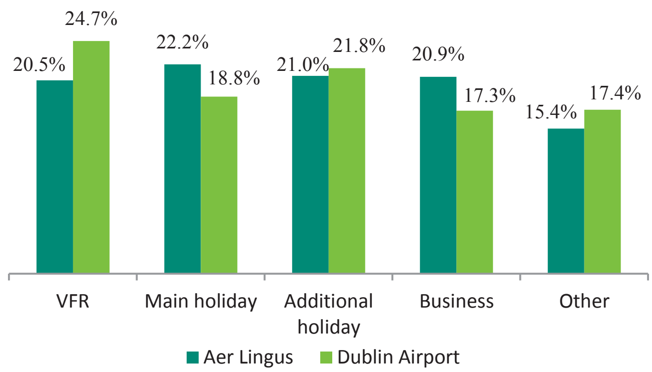
Source: IMF world economic data January 2015 and ESRI Quarterly review winter 2014

In 2014 Dublin airport passenger numbers increased to 21.7 million, representing a 8% improvement on prior year but still below 2008 peak of 23.5 million passengers. Aer Lingus should continue to benefit from its exposure to the recovery of the Irish economy. Between November 2014 and January 2015, the number of trips to Ireland increased by 9.1% compared to the same period in 2013 (Source: CSO).

Dublin airport passenger numbers (millions)



Purpose of journey (percentage)



Source: daa
Note: VFR is an acronym for "visiting friends and relatives"

Short haul competitive environment

Aer Lingus has carved out a niche and attractive business model, as a value carrier, which is positioned between the pure "low fares" and higher cost, full service models and this allows us to compete efficiently in our key markets. This short haul business model is defensible and we hold a significant market share of circa 41% of the Irish short haul market (including Aer Lingus Regional). As part of the Aer Lingus' demand-led strategy, capacity was reduced in the winter with the objective of protecting margins in the context of seasonally weaker demand. The Group will be increasing mainline short haul seat capacity by 2.4% over the peak summer 2015 season.

Aer Lingus' competes in two separate short haul markets, namely Ireland to UK and central European cities and Ireland to European leisure/ Mediterranean routes.

On the UK/ European central cities routes we have a strong and established market presence, driven by our superior airport locations and flight schedule quality, facilitated by a strong slot portfolio in central airports and supported by connecting traffic. In Dublin airport, we benefit from holding 55% of the prime slot times which includes the peak business 7 am slots (including our Regional franchise). This facilitates mid-morning US/ European connections and business travel. Our move to Terminal 2 in Heathrow in summer 2014 allows for seamless transfer to connections with several of the Group's partner airlines (including United Airlines and Air Canada) in addition to improving our customer's experience. In December 2014 we also purchased three slots in London Gatwick in order to secure first rotation slots. We are focused on continuing to improve our service offering on these routes.

The European leisure/ Mediterranean routes such as Faro, Malaga, Alicante and the Canaries are the main routes we compete directly with other low cost carriers. The leisure/ Mediterranean Irish travel market typically experiences a significantly higher peak to trough seasonality compared to our European peers. During the summer there is sufficient demand for both Aer Lingus and other carriers to compete on the leisure/ Mediterranean routes. Aer Lingus' established brand presence and superior service supports an all-year round service on these routes. As part of its demand led strategy, Aer Lingus deliberately reduced its winter capacity in 2014 on these routes in order to protect margin.

Our short haul business also benefits from a deep and well established network of partnerships. This includes code sharing with British Airways on London routes and KLM to Schiphol. We provide feeder traffic into these hubs, in addition to driving traffic flow onto our transatlantic business. Our franchise agreement with Stobart Air is also part of this approach, serving those markets where smaller aircraft such as Turbo Prop ATRs are more appropriate than our own fleet.

We will continue to improve our product offering in order to remain competitive, with a number of pipeline initiatives planned in the short term to further differentiate us such as:

- "Family First" product (launched in December 2014)
- Business excellence program
- New loyalty, recognition and rewards programme.

Finally, price will continue to play a more fundamental role in consumer decision making. We therefore continue to work to improve our cost base to increase our competitiveness.

Transatlantic competition

Aer Lingus continued to perform very positively throughout 2014 while increasing capacity by 23.8%. This additional capacity was successfully deployed and Aer Lingus achieved increases in both yields and load factors. In particular, the Group's new routes to San Francisco and Toronto launched successfully in April 2014 and performed ahead of management expectations. Existing direct services also performed ahead of prior year. In summer 2015 we will also expand our operations with the launch of the new Washington route and other increases in frequency. Overall we expect to retain our market share on a seat capacity basis in the Ireland to North American and Canadian market at circa 51% for summer 2015.

Macroeconomic factors

Certain macroeconomic factors are also key features of the market environment in which Aer Lingus operates. In particular, fuel prices, airport charges and FX trends are key market elements which can materially impact our operating costs.

The acceleration in the fall in jet fuel prices throughout 2014 has been a feature of the market in the year, with a spread of approximately US$342 per metric tonne between the monthly average high price in February 2014 of US$984 and monthly average low of US$642 in December 2014 (Source: Platts). At 31 December 2014 Aer Lingus had hedged 90% of its estimated 2015 fuel requirements at an average price of US$830 per metric tonne.

The US dollar strengthened from US$1.37 at 31 December 2013 to US$1.22 at the end of 2014. Although Aer Lingus does have a natural hedge due to our US$ sales, we retain a net US$ exposure with US$ costs mainly relating to aircraft hire, fuel, certain maintenance contracts and en-route/airport charges. At 31 December 2014, Aer Lingus had bought US$117.0 million for 2015 at an average rate of US$1.35.

Our strategy

Aer Lingus seeks to generate attractive and sustainable returns for shareholders by being the carrier of choice for air passengers from all over the globe who wish to travel to and from Ireland, while also increasing the flow of non-Ireland origination and destination passengers through our network. The Aer Lingus strategy was reviewed in detail by the Board over the course of 2014.

The Group' strategy focuses on three distinct business areas:

- Short haul mainline operations
- Long haul mainline operations
- Regional franchise

Our short haul business is resilient with strong fundamental elements which enable us to successfully compete in our chosen markets. We are focused on both load and yield optimisation to drive unit revenue and route profitability performance. Our strength in short haul is supported by:

- Recognised Aer Lingus brand
- Competitive network scope and depth
- Valued customer proposition
- Superior central airport locations and flight schedule quality
- Strong slot portfolio in central airports
- Supplemented by connecting traffic from our long haul network

Aer Lingus is a niche, focused player in the transatlantic long haul market with a share of circa 2% of the estimated 74 million passengers flying annually between Europe and North America. A key commercial focus for Aer Lingus is to increase our share of this market by continuing to develop the number of passengers connecting through our Dublin hub. Our long haul business benefits from:

- Successful brand which resonates strongly in the selected markets served
- Strong slot and frequency position in our Dublin hub which enables Aer Lingus to capitalise on first wave and connecting passengers from short haul mainline & regional franchise services
- Geographical location in terms of the shortest flying distance between Europe and North America compared with other European locations
- Mutually beneficial strong partnership arrangements including a number of arrangements with airlines based in the US
- Dublin’s customs and border pre-clearance facility allowing passengers to pre-clear customs in Dublin airport and arrive in the US as a domestic passenger
- Competitive pricing compared with other legacy long haul carriers driven by our low cost long haul proposition

The development of our Dublin hub strategy seeks to serve passengers travelling in both directions between European and North American destinations while also providing a comprehensive service to passengers to and from Ireland. Circa 50% of our transatlantic passengers relate to point to point traffic with the remaining 50% connecting via Dublin. Of those connecting, 20% originate from behind our North American gateway using Dublin to connect to Europe and 30% originate from UK/ Europe connecting to North America via Dublin. The position of Dublin airport as the 7th largest European transatlantic hub (based on the summer 2015 schedule) proves the success of this strategy and the continued development will be a focus for Aer Lingus over the medium term.

Our Aer Lingus Regional franchise model is an important part of our strategy, feeding traffic into our transatlantic network from secondary UK cities providing an alternative to consumers who do not have access to a direct flight option to the US.

Our strategic objectives for 2015 are set out in detail on page 12.

Our operating model

Aer Lingus' "value carrier" approach is the optimal operating model to implementing our strategy and to profitably serve passenger demand

Aer Lingus categorises its "value carrier" model as being between the pure low fare models and higher cost full service offerings. This allows the Group to compete efficiently in key markets. The key features of Aer Lingus' value carrier proposition are:

- Superior quality service offered at competitive fares
- Modular offering gives passengers the freedom and flexibility to select to buy or not buy as they choose themselves
- Central airport locations which enhance connectivity and convenience for our customers
- Align capacity with underlying demand and manage capacity to maximise profitability
- Leverage our unit cost advantage relative to the legacy carriers in order to be the "low cost" long haul carrier on the transatlantic
- Enhanced connectivity options to worldwide destinations through a wide range of airline partners which epitomises "open network architecture", allowing us to partner across alliances and offer connectivity through major hubs to worldwide destinations on all continents
- Continue to drive traffic flow via our Dublin hub
- Maintain a responsive business model to enable us to act quickly on emerging opportunities and to address risks and challenges as these arise
- Combination of mainline and Aer Lingus Regional franchise operations
- Balanced approach to aircraft ownership with either owned or leased aircraft

Our results

The effectiveness of Aer Lingus' strategy and "value carrier" operating model is clearly demonstrated by the strength of our 2014 results

KPI	Growth vs. prior year
Revenue growth	9.2%
Operating margin increase	0.3 ppts
Passenger volume growth	1.5%
Load factor increase	0.6 ppts
Revenue per seat increase	9.4%
Cost per ASK increase	1.0%
EBITDAR increase	20.3%
Free cash flow increase	92.1%

Please see financial review section for further details

Preparing for the future

In 2014 we achieved significant progress in terms of our strategic objectives. However, we acknowledge that there are both opportunities to be pursued as well as challenges to be addressed in the year ahead.

Our medium term objectives		
1	Further secure short haul profitability	• Maximise contribution earned in the seasonal peak • Capture opportunities resulting from our network quality and leading position in primary airports
2	Pursue disciplined long haul growth whilst maintaining stable load factors and yield	• Increase long haul capacity deployment - demand led • Increase market share
3	Grow retail revenue steams	• Achieve retail spend per passenger of €23.00 over the medium term • Investments in technology to provide new retail offerings
4	Drive additional unit cost reductions	• Reduce cost per ASK (CASK) ex fuel • Target €40.0 million cost savings (CORE)
5	Deliver on customer promise	• Further improve net promoter score and on-time departures/ arrivals • Improve pre-flight, in-flight and post-flight experience
6	Achieve operational and organisational best practice	• Improve operational processes (CORE) • Establish strategic business units • Deploy our assets in a disciplined and efficient manner • Address our seasonality profile • Improve employee relationship scores • Optimise our organisational structure

Objective 1: Further secure short haul profitability

Short haul performance	2014	Growth vs. prior year	2013	Growth vs. prior year	2012	Growth vs. prior year
Short haul fare revenue (€ million)	791.0	0.3%	789.0	(3.3%)	816.30	4.5%
Revenue per seat (€)	69.60	2.5%	67.88	(1.2%)	68.67	3.9%
Available seat kilometres (millions)	11,773	(1.5%)	11,954	(4.1%)	12,464	(0.4%)
Load factor	75.5%	(0.1) ppts	75.6%	0.2 ppts	75.4%	0.8 ppts

Key 2014 achievements included:

- ***Short haul revenue performance:*** We increased revenue per seat to €69.60 despite a 1.5% decline in short haul capacity as a result of deliberate tactical short haul capacity reduction decisions in Q4 2014 in order to manage our operating margin into the off-peak winter season. The response of load factor to capacity management is a key performance indicator in assessing network performance.
- ***London Heathrow:*** In July 2014, we transferred our London Heathrow operations to that airport's new Terminal 2 facility where Aer Lingus is one of the largest operators. Aer Lingus shares this terminal with 23 carriers from the Star Alliance. This proximity will provide opportunities to provide short haul feed services at both this terminal and other terminals in Heathrow. Connections will be

provided through bilateral relationships with other Terminal 2 based carriers. This move also improves our customer service proposition for our important Dublin-London market. Heathrow remains a focal point for our medium term growth strategy.

- ***Continued success of Aer Lingus Regional franchise:*** The Aer Lingus Regional franchise operated by Stobart Air is an important part of our strategy and this operation continued to perform very strongly in 2014 with 1.3 million passengers using this service, representing an 18.0% increase on previous year. This service provides an important feed to connect secondary UK cities (where there are no direct US flights) to our Dublin hub. Approximately 7% of Regional passengers connected in this manner in 2014. Aer Lingus is also a partner in a leasing joint venture which owns ten Turbo Prop ATR aircraft which, are leased to Stobart Air.

A key objective for 2015 is to further secure our short haul profitability by increasing yields and driving load factor while maintaining current capacity deployment. A key aspect of this is to further leverage opportunities represented by our network quality and our leading position in primary airports. Key priorities for 2015 include:

- ***Short haul load factor:*** Further improvements in our short haul load factor will be supported by our exposure to the continued recovery of the Irish economy (forecast to grow 4.7% in 2015) and connecting traffic into our integrated network offering. Our focus is to improve load factor within the parameters of our current fleet.
- ***Peak season opportunity:*** We intend to increase frequencies on certain peak summer 2015 seasonal destinations such as Faro, Bordeaux, Lyons and Malaga. We will also introduce new routes to Nantes and Agadir and launch a number of new charter routes. In total there will be a 2.4% increase in short haul peak summer 2015 seat capacity.

Objective 2: Pursue disciplined long haul growth

Long haul performance	2014	Growth vs. prior year %	2013	Growth vs. prior year %	2012	Growth vs. prior year %
Long haul fare revenue (€ million)	490.0	28.4%	381.6	11.1%	343.5	19.7%
Revenue per seat (€)	309.38	7.2%	288.65	(0.2%)	289.12	16.6%
Available seat kilometres (millions)	8,600	23.8%	6,944	11.6%	6,221	2.3%
Load factor (%)	83.7%	0.6 ppts	83.1%	0.6 ppts	82.5%	4.9 ppts

2014 was a very significant year for long haul performance:

- ***Transatlantic expansion:*** One of our key priorities in 2014 was to successfully expand our transatlantic network. In 2014 we deployed an additional 23.8% capacity whilst also increasing revenue per seat by 7.2% and load factors by 0.6 percentage points. This expansion involved the addition of two new direct services from Dublin to San Francisco and Toronto and increased frequency on services from Shannon to Boston and New York (facilitated by the deployment of three "damp leased" Boeing 757 aircraft and an existing A330 aircraft). The Group's new routes to San Francisco and Toronto launched in April 2014 and have both performed ahead of targets. Existing direct services to Boston, New York, Chicago and Orlando also continue to perform strongly.
- ***Dublin hub:*** A key element driving the success of our long haul business has been the transformation of Dublin into a European hub for transatlantic travel. Based on our summer 2015 schedule Dublin ranks as the 7th largest Europe/transatlantic hub. The advantages of Dublin as a hub include its geographic location and pre-clearance service enabling passengers travelling to the US to arrive as domestic passengers.
- ***Connecting traffic:*** In 2014, approximately 50% of total long haul passenger traffic either connected from, or to, our partner airlines services (including Aer Lingus Regional franchise services). 30% connected from Europe into the Dublin hub and beyond and 20% from the US into the Dublin hub and beyond. In addition, we continued to grow interline revenues and passenger numbers by 5% and 2% respectively compared to 2013:

Interline traffic trends	2014	2013	2012
Interline revenue (€m)	80.9	77.4	65.8
Interline passengers ('000)	901	882	832

- ***Long haul partnerships:*** We continued to build and develop our partnership arrangements throughout 2014 in order to provide our customers with access to more destinations on all continents. This approach allows us to extend our network reach with reduced risk and cost implications.
- ***Business class performance:*** Within our long haul business, our business class load factor has increased to 72% in 2014 from 67% in 2013 reflecting the continued strength of our service and competitive pricing.

Our priorities for 2015 are:

- ***Disciplined long haul growth***: We will expand our transatlantic business through demand led increases in capacity deployment. On the European to North Atlantic market we continue to target an increase over our market share which is currently just over 2%.

- ***Continued long haul expansion:*** We will expand our long haul business in 2015 in order to provide further connectivity for our passengers and strengthen Aer Lingus' and Dublin's position in traffic between Europe and North America. Our new Dublin to Washington service will be launched in May 2015. Our Dublin to San Francisco service will also increase from five services per week to a daily service and we will add an additional service between Dublin and Orlando. We will also operate a "wet leased" Boeing 767 during the twelve week peak summer period commencing in June 2015. This aircraft will add capacity on our Shannon to Boston route, while also freeing up one aircraft to commence a third daily Dublin to New York service. This expansion plan has been designed to take further advantage of the peak summer trading season. In summer 2015, we expect total seat capacity on the Ireland – North Atlantic market to increase by approximately 13%. Aer Lingus will account for nearly half of this growth through our increase in seat capacity.

Aer Lingus long haul capacity growth 2015	Seat Growth
Overall long haul growth in 2015	13%
This growth may be analysed as:	
Dublin to Washington	5%
Additional New York summer service	3%
Increased frequency from Dublin to San Francisco	3%
Other	2%
Business class cabin	*26%*

- ***Business class re-design:*** Our new re-configured business class service with fully "lie-flat" beds in conjunction with an additional A300-200 as well as a Boeing 767 aircraft (which will operate for 12 weeks in summer 2015) will result in a 26% increase in our business class cabin capacity in 2015.
- ***Partnerships:*** In 2015 Aer Lingus will seek further opportunities to drive passenger volumes through our partnership arrangements and connection strategy.

Objective 3: Grow retail revenue streams

In 2014, we took several important steps in terms of the evolution and performance of our retail product portfolio:

- ***Retail revenue growth:*** Retail revenue in total terms increased by 3.0% while retail revenue per passenger grew by 1.5%. Retail revenue is an important part of our business, contributing of 12% total revenue in 2014.
- ***Product improvements:*** The continuing improvement in retail revenue performance was achieved through the introduction of long haul Wi-Fi and seasonally varied pricing strategies for certain retail elements such as baggage charges. The new "Bia" in-flight food offering replaced the Sky Deli menu in November 2013 and is now a firmly established retail offering.

Our priority for 2015 is to continue to grow retail revenue:

- ***Retail revenue product improvements:*** Initiatives include:

  - Personalised merchandising capability
  - Upgrade to business class meal in economy (transatlantic only)
  - Wi-Fi upgrades which will be driven by technology changes
  - Aer Lingus holiday products
  - Extra bag charge with different weight options

- ***Medium term target:*** Over the course of 2015, we will introduce a number of new initiatives and our medium term target is to increase our retail revenue per passenger to €23.00 (2014: €19.14).

Objective 4: Drive additional unit cost reductions

In 2014, our focus was twofold: (i) launch the CORE programme and (ii) implement agreed staff cost stabilisation measures to control our employment cost base.

CORE

The CORE programme was launched in early 2014. The context for CORE is that there are further opportunities to develop our "value carrier" business model, while having to respond to an increasingly competitive short haul market. CORE seeks to secure a cost base that allows us to continue to be price competitive.

Significant progress was made in 2014, especially in regards to CORE revenue initiatives. Staff related efficiency measures were however put on hold pending the resolution of the IASS pension issues. Management has recently re-launched the CORE programme with the objective of realising unit cost decreases over the medium term.

In overall terms, Aer Lingus will seek cost reductions totalling €40 million by the end of 2016. This is an increase of €10 million compared to the target of €30 million announced in early 2014. A benchmarking exercise is currently underway to identify areas for further improvement.

CORE initiatives will focus on the following main areas:

Organisational initiatives
• Consolidation of overlapping functions
• Annualised contracts
Productivity initiatives
• Process streamlining
• Reduction of sick leave and accidents
• Better utilisation of ground assets
• Reduction of fuel burn
• Procurement savings, including airport charges
Support functions
• Optimisation of on-board supply chain and retail
• Review of cleaning and ground handling costs
• Implementation of multi-sector bars
Network / Fleet
• Fleet planning
• Optimisation of Engine on Wing
• Inventory management
Overheads
• Indirect and overhead cost improvements

- As part of the re-launched CORE programme, Aer Lingus announced a new voluntary severance programme in February 2015 following the resolution of IASS funding issues. This follows a voluntary severance programme introduced in 2013 under which interest expressed exceeded the targeted FTEs exits with many applicants choosing not to commit. Despite this, 139 staff left under this programme which resulted in savings of €4.9 million in 2014. The benefit of the exits under the new voluntary severance programme will be realised later in 2015 and subsequent years.

Staff cost stabilisation
Aer Lingus agreed staff cost stabilisation measures within the context of the agreed solution to address funding issues in the IASS pension scheme:

- As part of the IASS solution, annual salary increments and annual salary inflation will not be payable to non-pilot staff in 2014, 2015, and 2016.
- Aer Lingus recognises a need for some moderate pay progression over this period and for this reason once-off stabilisation payments totalling €5,850 for each employee will be spread over 2014, 2015 and 2016. These are once-off payments in each year and will not accumulate. In 2014, the first of these stabilisation payments of €2,250 per employee (covering the period from October 2012 to December 2014) was made for a total pay-out of €9.3 million. In 2015 and in 2016 stabilisation payments of €1,800 per employee will be paid.

Objective 5: Deliver our customer promise

Aer Lingus is focused on improving all aspects of the customer journey, from the moment the customer books on our website, through to check-in experience, in-flight and post flight experience.

In 2014, we achieved some important milestones:

- ***Customer understanding:*** In August 2014 we launched a new "Voice of the Customer" survey tool in order to better understand our customers' booking, check-in, boarding, in-flight and arrivals experiences. In the five months to 31 December 2014 we received nearly 70,000 responses providing management with good insights to adequately understand our customers' perceptions and needs.

- Findings indicate that 74% of those surveyed who responded are "extremely" or "very satisfied" with their Aer Lingus experience. We have however identified a number of improvement areas, particularly in relation to managing delays and problem resolution. Following these initial findings we are launching a number of measures throughout 2015, including specific targets for our senior management in order to further improve our customers' experience.

- ***Booking experience:*** In 2014 we took several initiatives to improve our customer's booking experience. This includes the re-design of our new website and app. These will both be completed in 2015.

- ***Pre-flight experience:*** Our customers' pre-flight experience ranges from check-in through to boarding and we are continually seeking to improve our processes in this regard. As noted earlier, in July 2014 we moved from London Heathrow Terminal 1 to Terminal 2. The new terminal constitutes a major improvement for our customers at one of our most important destination airports and we continue to receive positive feedback on the benefits of this move. We also opened a new lounge in this terminal. Our new lounge in JFK will open in Q1 2015.

  A key performance measure we use to assess our operations is On-Time Performance ("OTP"). In 2014, we achieved an OTP of 81%. This was slightly behind that reported in 2013. We strived to ensure passenger disruption was minimised and any such impacted passengers were appropriately accommodated. A priority for 2015 is to improve OTP levels.

  According to UK Civil Aviation Authority (CAA) punctuality statistics prepared for ten UK airports (including London Heathrow, Birmingham and London Gatwick) indicates that Aer Lingus ranks ahead of carriers such as Ryanair and British Airways in respect of OTP on services to/from UK airports.

UK CAA Punctuality Statistics (Jan 2014- Dec 2014)	Aer Lingus	Ryanair	British Airways
Departures < 15 minutes	86%	80%	77%
Arrivals < 15 minutes	81%	79%	74%

Our 2015 priorities are:

- ***In-flight experience:*** A key aspect of improving our customer's in-flight experience includes the upgrade of our existing long haul business class service to a fully "lie flat" capability on all of A330 fleet flying between Dublin and the US for summer 2015.

- ***Post-flight experience:*** 2015 will also see the introduction of a new customer loyalty programme which will replace the current Gold Circle programme. We expect this to be operational in 2016. Finally, in addition to the reconfigured business class offering, we will also open a new arrivals lounge at Dublin airport offering our customers the opportunity to refresh following their transatlantic journey.

Objective 6: Achieve operational and organisational best practice

We recognise there are certain improvements which can be made across our business to drive efficiencies and achieve operational and organisational best practices. The CORE programme is an important part of this objective. However, there are a number of other initiatives which will be developed throughout 2015.

- ***Strategic business units:*** The focus on cost and business process optimisation continued over the course of 2014, with the preparations now completed to transform various support functions into strategic business units. These units will be operationally identifiable and capable of providing services on a standalone basis both to internal parties within Aer Lingus as well as external third parties. The rationale for establishing the SBUs are:

  - Provides greater transparency over the "total cost" of providing specialist services to Aer Lingus
  - Facilitates cost benchmarking with external service providers as required
  - Promotes a greater degree of entrepreneurial culture and activity within Aer Lingus.

  Overall, this project should assist in ensuring our support functions are in line with market comparable rates.

- ***Asset deployment:*** Aer Lingus is focused on maintaining an appropriate fleet composition in terms of the mix of aircraft type and the balance between owned and operating leased fleet. The introduction of a new B767 aircraft for the 12 week peak 2015 summer season to facilitate additional long haul flying from Shannon to Boston and Dublin to New York is an example of our ability to optimally match appropriately sourced capacity with demand.

  Our fleet remains relatively young with an average age of 9.7 years at 31 December 2014. As a result we operate a relatively fuel efficient fleet which helps maintain our price competitiveness.

  We have recently concluded negotiations with Airbus and in the period from 2018 to 2020 we will take delivery of nine A350-900 aircraft (A350XWB or Regional variant). These aircraft will progressively replace our existing A330 fleet in addition to expanding our capacity.

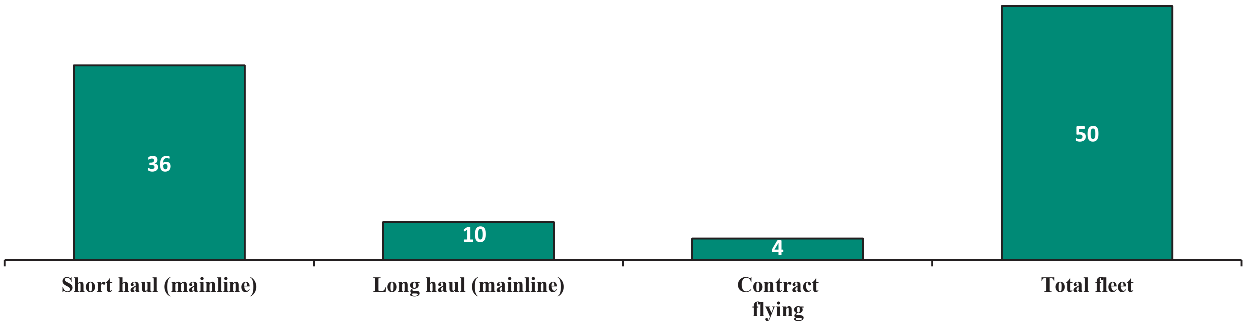
  We will continue to determine the ownership proportion of our currently leased short haul aircraft in order to drive higher returns from our asset base than is currently the case. In October 2014 we were informed by Virgin Atlantic of its intention to cease its "Little Red" operations on a phased basis over the period to September 2015. Our short haul fleet ownership model is sufficiently flexible to successfully absorb the return of the aircraft used to operate "Little Red" services. In addition one of our mainline long haul aircraft is deployed on a damp lease arrangement during the winter season with the tour operator Novair. The agreement with Novair started in December 2013 and will cease operating in winter 2015.

A summary of our fleet as at 31 December 2014 was:

By aircraft type and financing structure:

Aircraft type	Owned	Finance lease	Operating lease	Damp lease	Total
A319			4		**4**
A320	7	9	17		**33**
A321	3				**3**
A330-200	2	1			**3**
A330-300	1	3			**4**
B757				**3**	**3**
Total	**13**	**13**	**21**	**3**	**50**

By usage



- ***Seasonality:*** Seasonal earnings are a feature of the airline industry. Aer Lingus' profile is however, more pronounced than most of our direct peer group. Aer Lingus has been successful in growing its business in the peak and has introduced capacity reductions in the winter 2014 season, in order to protect margins. Further opportunities have been identified and these will be introduced in 2015 including:

    - Introduction of a seasonal Boeing 767 to provide additional transatlantic capacity during the peak 12 week summer period; and
    - Flexible working arrangements to align staff capacity with seasonality.

- ***Employee engagement:*** Positive engagement with our staff is crucial to the continued success of Aer Lingus. The results of our 2014 employment engagement programme show positive progress with our in-flight crew. We have also identified a number of areas for improvement. In overall terms, staff engagement remains broadly stable on a year-on-year basis.

    - The funding position of the IASS had been a considerable source of concern for Aer Lingus employees and has exposed Aer Lingus to the risk of significant operational disruption arising from industrial action by employees on account of these funding issues. In November 2014 affected Aer Lingus employees balloted in favour of the then proposed IASS solution. The ballot was conducted on an aggregate basis by the SIPTU, IMPACT and TEEU trade unions representing approximately 97% of affected Aer Lingus employees. The UNITE trade union which represents approximately 3% of affected Aer Lingus employees did not participate in the aggregate ballot. Of the votes cast, 70.27% were in favour of the proposed solution. Following this ballot, a collective union agreement was signed in November 2014 which now provides a pathway to develop a regularised industrial relations environment. This was followed by full implementation of the IASS solution and together these two events significantly mitigate potential industrial relations risks related to this matter.

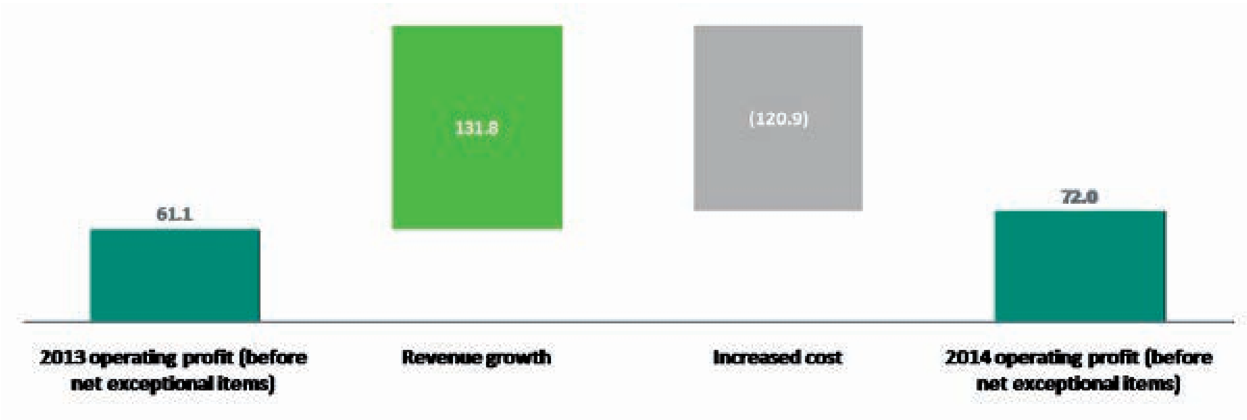
    - The Board and management accept that further improvements must be made to Aer Lingus' industrial relations environment. Aer Lingus Limited and its key trade unions have agreed to act reasonably and in good faith to establish an Internal Dispute Resolution Board ("IDRB") to facilitate an improved industrial relations environment. The purpose of this mechanism is to address day-to-day employee relations matters; to mitigate the adverse effects related to potential future staff disputes and to protect future operational stability.

2014 Financial Review

Aer Lingus increased its operating profit (before net exceptional items) in 2014 by 17.8% to €72.0 million. Including net exceptional items of €180.3 million, Aer Lingus incurred an operating loss of €108.4 million.

This was achieved against a background of increasing competition and a difficult industrial relations environment in H1 2014. Our balance sheet remains strong with €935.5 million in gross cash at the end of the year.

2014 Operating Profit Bridge before net exceptional items (€ million)



The Group achieved an operating margin of 4.6% representing a 0.3 percentage point improvement on prior year (2013: 4.3%).

In 2014 the Group generated revenue of €1,556.9 million representing a 9.2% increase compared with prior year (2013: €1,425.1 million). This revenue performance was driven by long haul growth, a full year of ACMI contract flying revenues and solid growth in cargo revenues. Operating costs increased by 8.9% to €1,484.9 million (2013: €1,364.0 million). Over half of the 8.9% increase can be attributed to volume related increases driven by higher fuel, airport charges, aircraft hire and increased FTEs mainly associated with increased transatlantic flying activity.

Staff costs increased by 8.4% which was the result of additional FTEs related to our transatlantic expansion and staff stabilisation payments following implementation of the IASS pension solution.

Unit revenue & cost performance	**2014**		**2013**	
	€ million	***Per ASK (€' cent)***	**€ million**	***Per ASK (€' cent)***
Total revenue	1,556.9	*7.64*	1,425.1	*7.54*
Operating costs excluding fuel	(1,106.8)	*(5.43)*	(1,006.7)	*(5.33)*
Fuel	(378.1)	*(1.86)*	(357.3)	*(1.89)*
Total operating costs	(1,484.9)	*(7.29)*	(1,364.0)	*(7.22)*
Operating profit before net exceptional items	72.0	*0.35*	61.1	*0.32*

In the table above, we include revenue, operating costs and operating profit divided by Available Seat Kilometres (ASKs) to calculate unit performance.

On a unit cost basis for full year 2014, the Group generated total revenue per ASK of 7.64 euro cent up 1.3% from 2013. Our total operating costs excluding fuel per ASK was 5.43 euro cent (up 1.9% compared to 2013). Total operating costs including fuel per ASK were 7.29 euro cent (up 1.0% compared to 2013).

Explanatory note on comparative figures and operating statistics

There are a number of factors which affected Aer Lingus' 2014 performance and which were not a feature of 2013.

- **Transatlantic revenues** in 2014 were positively impacted by the commencement of new direct services from Dublin to Toronto and San Francisco. These new services added €68.9 million to long haul revenues. In addition, revenue from Aer Lingus' existing long haul routes positively contributed to growth of €39.5 million year-on-year, with additional frequency to Boston and New York operated by three newly damp leased Boeing 757 aircraft
- In H1 2014 actual and threatened **industrial action** adversely impacted operating profit performance by an estimated €10.0 million

- **Staff costs** increased by 8.4% compared with 2013 due to 151 additional FTEs (up 4.2% from 2013) and staff stabilisation payments (€2,250 per eligible staff member) following the implementation of the IASS solution
- Aer Lingus incurred higher **aircraft hire costs, depreciation and maintenance costs** in 2014 compared with 2013 associated with the deployment of three Boeing B757 aircraft on a damp lease basis from April 2014. This contributed to a 45.4% increase in aircraft hire costs
- **Fuel costs** were €20.8 million higher in the year. Increased volumes associated with the transatlantic expansion led to higher costs of €29.1 million. This was offset by a decline in jet fuel prices (2.6% fall in the average blended price) resulting in a €4.5 million favorable variance and weaker US dollar (average US$1.34 in 2014 versus average US$1.32 in 2013) with a benefit of €3.8 million
- 2014 results reflect a full year of **UK domestic contract flying** on behalf of Virgin "Little Red" (which commenced on 31 March 2013) and a full winter flying on behalf of Novair which commenced in Q4 2013. Together these two contracts drove an increase in "other revenue" of 45.2%
- Aer Lingus reported an "other gain" of €5.0 million. This was predominately driven by favourable currency revaluations at the end of 2014

Revenue

The year-on-year improvement in revenue of €131.8 million is driven by increases across all revenue streams with particularly strong performances in long haul passenger revenue as well as other revenue (primarily reflecting a full year of contract flying operations).

Passenger revenue

In 2014 passenger fare revenue increased by 9.4% mainly driven by increased capacity deployed on our long haul routes, coupled with a resilient short haul performance. The Group generates approximately half of its bookings outside Ireland. This results in more of our total passenger fare revenue being receivable in currencies other than the euro, our reporting currency. On a constant currency basis, we estimate 2014 passenger revenue would have been €3.4 million higher than actual 2014 values reported.

Passenger revenue	2014	2013	% increase/ (decrease)
Passenger fare revenue (€ million)	1,281.0	1,170.6	9.4%
Passenger numbers ('000s) - excluding Aer Lingus Regional	9,766	9,625	1.5%
ASKs (million)	20,373	18,898	7.8%
Load factor (%)	79.0%	78.4%	0.6 ppts
Fare revenue per seat (€)	98.93	90.43	9.4%
Fare revenue per ASK (€cent)	6.29	6.19	1.6%
Fare revenue per passenger (€)	131.17	121.62	7.9%

Further analysis split by short haul and long haul is set out below.

Mainline long haul revenue

Aer Lingus significantly expanded its long haul capacity in 2014 with a 23.8% increase in ASKs. The additional capacity was converted into 20.6% higher passenger numbers. At the same time, yield per seat increased by 7.2% and load factor by 0.6 percentage points. Combined, these factors drove a €108.4 million increase in long haul passenger revenues.

In 2014, a significant proportion of Aer Lingus long haul bookings were generated within the USA. On a constant currency basis, we estimate that 2014 long haul revenue would have been €7.7 million higher than actual values reported.

Long haul revenue	2014	2013	% increase/ (decrease)
Long haul passenger fare revenue (€ million)	490.0	381.6	28.4%
Long haul passenger numbers ('000s)	1,324	1,098	20.6%
ASKs (million)	8,600	6,944	23.8%
Load factor (%)	83.7%	83.1%	0.6 ppts
Fare revenue per seat (€)	309.38	288.65	7.2%
Fare revenue per ASK (€cent)	5.70	5.50	3.6%
Fare revenue per passenger (€)	370.04	347.52	6.5%

Mainline short haul revenue

2014 short haul revenue increased by 0.3% to €791.0 million compared with prior year (2013: €789.0 million). This was driven by a decrease in capacity and passengers, offset by a 2.5% increase in yield per seat on broadly flat load factors. The capacity reductions were driven by seasonal network adjustments on a tactical basis implemented in Q4 2014 in order to protect margins over the off-peak season and focus on core short haul routes.

In the first half of 2014, industrial action mainly impacted passenger traffic on short haul sun routes. The negative effect on the 2014 operating result was estimated at €10.0 million.

Our short haul business is exposed to euro/GBP movements. On a constant currency basis, we estimate that 2014 short haul fare revenue would have been €4.3 million lower than actual values reported.

Short haul revenue	2014	2013	% increase/ (decrease)
Short haul passenger fare revenue (€ million)	791.0	789.0	0.3%
Short haul passenger numbers ('000s) - excluding Aer Lingus Regional	8,442	8,527	(1.0%)
ASKs (million)	11,773	11,954	(1.5%)
Load factor (%)	75.5%	75.6%	(0.1) ppts
Fare revenue per seat (€)	69.60	67.88	2.5%
Fare revenue per ASK (€cent)	6.72	6.60	1.9%
Fare revenue per passenger (€)	93.70	92.53	1.3%

Retail revenue

Retail revenue increased by 3.0% in 2014 to €186.9 million (2013: €181.5 million). Retail revenue per passenger increased by 1.5% reflecting baggage charges (supported by a revised baggage charge model), seat selection fees and a new "Plus" product. The mix between long and short haul fare passengers impacted the yield improvement in 2014 with long haul passengers as a percentage of mainline passengers increasing to 13.6% in 2014 compared to 11.4% in 2013.

Retail revenue	2014	2013	% increase/ (decrease)
Retail revenue (€ million)	186.9	181.5	3.0%
Retail revenue per passenger (€)	19.14	18.85	1.5%

Cargo revenue

Total cargo revenue increased by 6.2% in 2014 to €46.3 million (2013: €43.6 million) driven by a 2.5% increase in flown cargo tonnes mainly associated with growth in transatlantic services ex-Ireland and continental Europe and a 1.6% increase in gross flown freight yield per tonne. Cargo benefited from strong growth in the high value pharma and technology sectors and the business was awarded the Good Distribution Practice Passport by the Life Sciences Industry and Irish Exporters Association.

Cargo revenue	2014	2013	% increase/ (decrease)
Total cargo revenue (€ million)	46.3	43.6	6.2%
Cargo tonnes flown - scheduled ('000s)	27,004	26,354	2.5%
Gross flown freight yield per tonne (€)	1,296	1,275	1.6%

Other revenue

Other revenue comprises income from our contract flying business as well as franchise fees relating to Aer Lingus Regional, operated by Stobart Air. Other revenue grew by 45.2% in the year driven by a full year of contract flying on behalf of Virgin "Little Red". Virgin Atlantic announced in October 2014 that Little Red services would be discontinued on a phased basis over the period to September 2015 and in January 2015 we were informed that Novair contract flying will cease in winter 2015. These factors will impact this revenue category in our 2015 results.

Other revenue	2014	2013	% increase/ (decrease)
Other revenue (€ million)	42.7	29.4	45.2%

Summary operating costs

Total operating costs (before exceptional items) increased by 8.9% in 2014 to €1,484.9 million compared with €1,364.0 million in 2013, mainly as a result of the increase in operating activity associated with our expanded transatlantic network. On a unit cost basis based on ASKs, operating costs increased by 1.0%.

Operating costs (€ million unless otherwise stated)	2014	2013	% increase/ (decrease)
Fuel costs	378.1	357.3	5.8%
Staff costs	300.6	277.4	8.4%
Airport & en-route charges	376.7	359.4	4.8%
Other operating costs	429.5	369.9	16.1%
Total operating costs	**1,484.9**	**1,364.0**	**8.9%**
Operating cost per ASK (€ cent)	*7.29*	*7.22*	*1.0%*

Fuel costs
Fuel costs increased by 5.8% to €378.1 million (2013: €357.3 million) driven by an 8.1% increase in fuel uplift (in metric tonnes). This was offset by favourable price movements with the average blended fuel cost per metric tonne (excluding into-plane fees) decreasing to $975 in 2014 compared with $1,001 for 2013. In addition fuel costs were affected by a relatively weaker US$ in 2014 compared with prior year (i.e. 2014 average full year rate of US$1.34 versus US$1.32 in 2013).

Staff costs
Staff costs increased by 8.4% compared with prior year driven by additional 151 FTEs on average in 2014 compared to 2013. This increase in FTEs primarily related to 119 additional cabin crew and pilots required to support transatlantic activity as well as additional staff required to support our contract flying operations.

In conjunction with the IASS solution, Aer Lingus has negotiated certain employment cost stabilisation measures which will provide Aer Lingus with a measure of stability for its non-pilot employment cost base in the period from 1 September 2013 until 31 March 2017. Under these arrangements, annual salary increments and annual salary inflation will not be payable to non-pilot staff in 2014, 2015, and 2016. As a result, any annual salary increments and annual salary inflation payable from 1 April 2017 onwards will be calculated by reference to a lower staff cost base than would otherwise be the case in the absence of employment cost stabilisation measures. Staff are entitled to receive once-off stabilisation payments.

In 2014, the first of these stabilisation payments (amounting to €2,250 per eligible employee and relating to the period from October 2012 to December 2014) was paid totalling €9.3 million. In each of the years 2015 and in 2016 stabilisation payments of €1,800 per employee will be paid.

Finally these increases were offset by €4.9 million cost reduction associated with the 137 employees who left Aer Lingus in 2013 and 2014 under a voluntary severance scheme.

Airport and en-route charges
Airport and en-route charges increased by 4.8% to €376.7 million in 2014 due to combination of factors. These include a 12% increase in London Heathrow charges as well as increases in charges at other airports. Other factors include the full year impact of 2013 airport price increases, higher custom and border pre-clearance fees associated with increased volumes in Dublin airport, additional handling charges associated with the Group’s expanded transatlantic service and the impact of a stronger GBP relative to euro.

Other operating costs (€ million)	2014	2013	% increase/ (decrease)
Maintenance costs	71.6	68.4	4.7%
Depreciation	90.0	82.9	8.5%
Aircraft operating lease costs	65.7	45.2	45.4%
Distribution costs	54.2	47.0	15.3%
Ground operations and other costs	152.9	127.0	20.4%
Other (gains) net losses	(5.0)	(0.6)	n/m
Total other operating costs	**429.5**	**369.9**	**16.1%**

Maintenance
2014 maintenance costs increased 4.7% to €71.6 million due to the full year costs associated with the ACMI contract flying operations for Virgin and Novair. These were offset by reduced de-icing costs as a result of more favourable weather in Ireland and Europe in 2014 compared with 2013.

Depreciation
The 8.5% increase in depreciation in 2014 compared with 2013 is mainly associated with depreciation of the fit-out of the Boeing 757 aircraft of approximately €1.7 million (not in operation in 2013) and depreciation associated with increased IT capital expenditures in recent years.

Aircraft operating lease costs
2014 aircraft operating costs increased by 45.4% mainly driven by the three Boeing 757 aircraft deployed since April 2014 on “damp leases” which are being utilised as part of the transatlantic expansion and the lease costs associated with the aircraft for the Virgin Little Red contract flying operation. These increases were partly offset by a more favourable US$ exchange rate in 2014 compared with 2013 on a full year average basis.

Distribution costs
Key drivers of increased distribution and advertising costs in 2014 included:

- Higher Computer Reservation System ("CRS") fees associated with increased bookings being made through Global Distribution Systems ("GDS"). The percentage of bookings made through CRS/GDS as a proportion of our distribution channels increased by 1.8 percentage points between 2013 and 2014
- Increased sales volumes/ changes in the short haul/ long haul sales mix driving higher credit card handling fees and commission costs
- Additional advertising undertaken post June 2014 in order to rebuild consumer confidence following H1 2014 industrial action and an increase in advertising activity associated with the launch of the new transatlantic routes and re-launch of our business class service

Ground operations and other costs
Ground operations and other costs increased by 20.4% in 2014 reflecting higher catering costs, in-flight entertainment and other direct costs associated with expanded transatlantic flying, higher software licensing fees, training costs associated with the new pilot cadet programme and higher corporate and third party services fees.

Other gains and losses
Other net gains/ losses largely comprised gains from maturing currency contracts used to manage foreign exchange exposure reflected in other income statement captions. In addition other gains and losses include the revaluation effect of foreign currency balance sheet items. The gain of €5.0 million in 2014 was driven by:

- A gain of €1.0 million in relation to average US dollar hedged movements compared to the average US dollar spot rate
- A loss of €2.3 million in relation to average GBP sterling hedged movements compared to the average GBP sterling spot rate
- An unrealised net gain of €6.3 million relating to the revaluation of foreign currency denominated balance sheet items. This was driven mainly by the change in the US$ year-end rate (2013:US$1.37 versus 2014: US$1.22).

Overview of FX rates	**As at 31 Dec**		**Average during year**	
Foreign currency rate	**2014**	**2013**	**2014**	**2013**
Euro/US$	1.22	1.37	1.34	1.32
Euro/GBP	0.78	0.83	0.81	0.85

Net exceptional items
Net exceptional costs of €180.3 million were incurred in 2014 comprising:

- Once-off contribution of €190.7 million in relation to the IASS pension solution. See Notes 26 and 29 for further details
- €6.2 million of professional fees primarily comprising legal, actuarial and implementation fees associated with the IASS pension solution
- €5.1 million in relation to restructuring and termination costs mainly relating to Shannon restructuring and €1.4 million of costs in respect of termination payments for staff who exited employment with the Group in 2014 under the terms of the 2013 voluntary severance scheme
- These costs were offset by a past service credit of €21.7 million on a staff retirement income streaming liability.

See Note 10 for further details

Finance income and expenses

€ million	**2014**	**2013**	**% movement**
Finance income	9.9	10.8	(8.3%)
Finance expense	(13.7)	(15.1)	9.2%
Net finance expense	**(3.8)**	**(4.2)**	**9.5%**
Average gross cash	980.7	964.6	1.7%
Average gross debt	(436.7)	(510.5)	14.5%
Average interest rate:			
Deposit	0.9%	1.0%	(0.1) ppt
Debt	2.5%	2.5%	-

Net finance expense for 2014 was €3.8 million (2013: expense of €4.2 million). Finance expense decreased by €1.4 million due to lower finance lease obligations. Scheduled debt repayments continued during the year of €122.2 million. Interest rates applicable to finance leases remained at 2.5%. Finance income decreased by €0.9 million mainly reflecting the impact of lower average deposit interest rates.

Tax charge

Aer Lingus paid minimal cash taxes in 2014 and 2013 due to significant tax losses carried forward. The tax credit in the current year of €15.7 million (2013: charge of €5.4 million) and the effective rate of 14.1% (2013: 13.8%) reflect movements in deferred tax principally the recognition of a deferred tax asset in respect of the once-off pension contribution of €190.7 million.

€ million	**2014**	**2013**
Total tax credit/ (charge)	15.7	(5.5)
Effective tax rate	14.1%	13.8%
Carried forward tax losses	351.8	419.2

Cash flow, cash and debt

Net cash increased to €545.3 million by year-end.

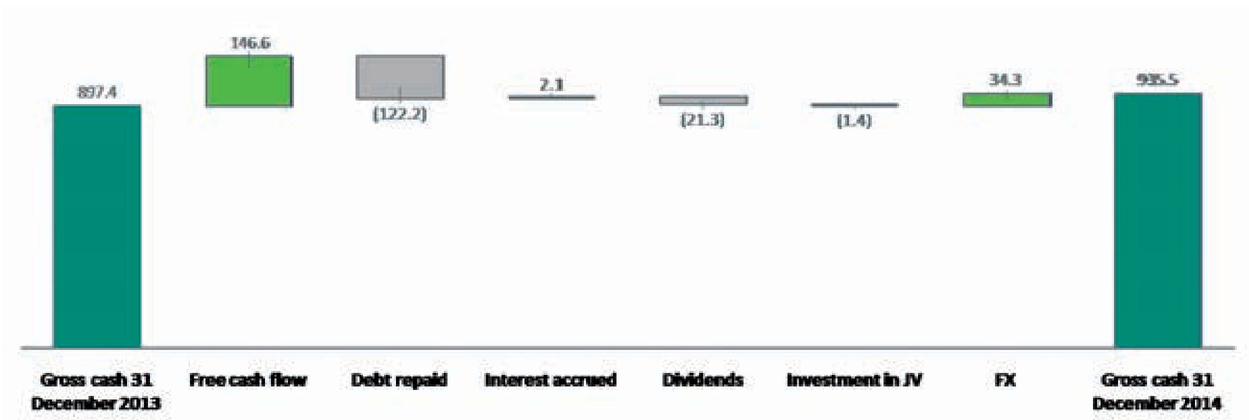
€ million	2014	2013
Gross cash	935.5	897.4
Gross debt	(390.2)	(477.6)
Net cash	545.3	419.8

Reconciliation of profit before tax to free cash flow (€ million)

Free cash flow of €146.6 million is €70.3 million higher than the prior year (2013: €76.3 million) driven by improved operating profit performance, offset by higher capital expenditure of €55.3 million compared with prior year (2013: €31.4 million). Other movements impacting gross cash for 2014 include the 2014 dividend payment of €21.3 million, finance lease repayments of €122.2 million (2013: €47.0 million), investments in relation to the aircraft joint venture of €1.4 million and positive FX gains of €34.3 million.

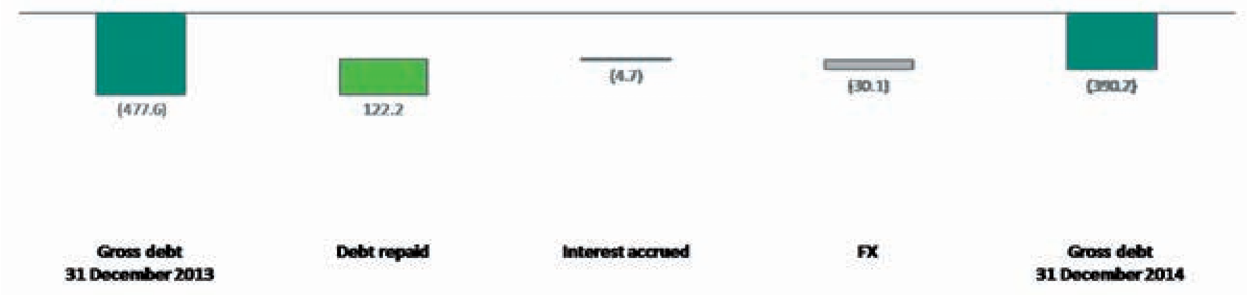
The Group expects capex outflows of approximately €60 million in 2015. The increase is mainly due to higher investment on internal IT systems to improve our product offering.

Gross cash movements (€ million)



Overall gross cash at 31 December 2014 of €935.5 million is €38.1 million higher than 2013. At 31 December 2014 €211.7 million of gross cash was deemed restricted (of which €190.7 million relates to funds held in escrow for the once off pension contribution).

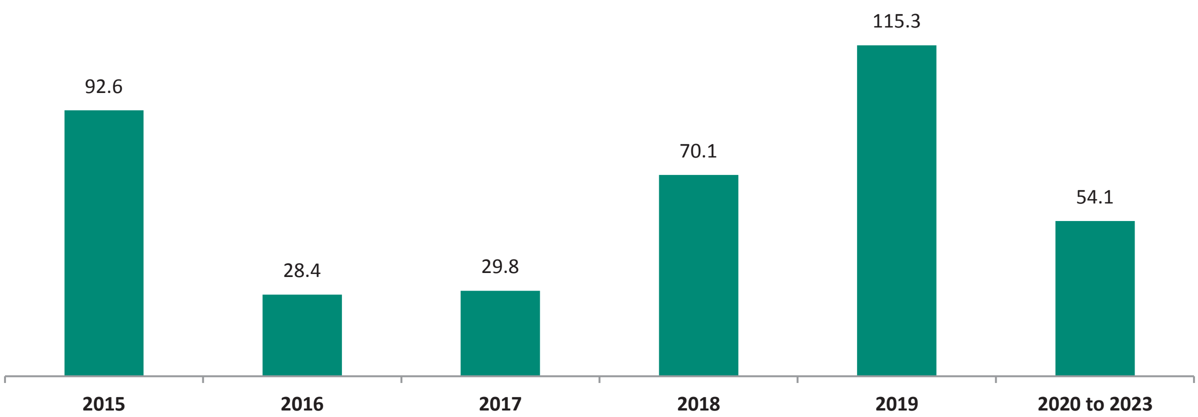
Gross debt movements (€ million)



Gross debt comprises finance leases secured on individual aircraft. At 31 December 2014, approximately 63% of gross debt was denominated in US$. The appreciation of the US dollar over the euro throughout 2014 adversely impacted our gross debt by €30.1 million. At any one time, the Group holds an amount of gross cash in US$ in excess of our gross debt to mitigate the potential impact of FX on the financial statements. Scheduled finance lease repayments led to seven leases becoming unencumbered in the year.

Debt repayment profile
The Aer Lingus debt maturity profile extends until 2023. In 2014, we made finance lease repayments of €122.2 million. Our finance lease repayment schedule from 2015 through the remainder of the lease terms (excluding interest), at the 31 December 2014 US$/euro FX rate of US$1.22 is as follows:

Finance lease repayments (€ million)



Fuel currency and emissions hedging

Fuel hedging
To achieve greater certainty on costs, Aer Lingus manages its exposure to fluctuations in the prices of fuel and foreign currency through hedging.

In December 2014, due to the acceleration in falling jet fuel prices, the Group took a decision to increase its hedging position in order to be more closely aligned with the significantly higher hedge ratio of our peers and to provide greater certainty on fuel costs. As a result at 31 December 2014, Aer Lingus was 90% hedged for the next 12 month period at an average price per tonne of $830 per metric tonne. This compares with 61% for the corresponding period at 31 December 2013.

During 2014 the Group recognised a loss of €68.8 million in other comprehensive income in respect of cash flow hedges due to the decreases in the underlying spot price of fuel relative to the prices at which fuel hedging contracts had been entered into and the levels of hedging. The cash flows in respect of these derivatives are expected to occur as they mature over the next 18 months with the income statement impacted as the hedged transactions occur.

At 31 December 2014 our estimated fuel requirements for 2015 and 2016 were approximately 515,000 and 517,000 metric tonnes in each year respectively which were hedged as follows:

Fuel hedging	2015	2016
% expected fuel requirement hedged	90%	21%
Average price per tonne US$ (excluding into-plane costs)	830	845

Currency hedging
Our main foreign currency exposure is in US$. Our US$ denominated sales provide us with a natural currency hedge, however there remains a net shortfall due to a number of US$ denominated costs such as fuel, aircraft hire and certain maintenance costs.

At 31 December 2014, Aer Lingus had bought US$117.0 million for 2015 at an average rate of US$1.35. In addition we sold forward GBP£62 million for 2015 at an average rate of GBP£0.84.

US$ hedging	2015	2016
Forward purchases of US$ (US$ million)	117	14
Average rate (US$ to EUR)	1.35	1.38

EU emissions trading

The EU emissions trading system ("EU ETS") became effective for airlines from 1 January 2012 requiring that all flights departing from or arriving at EU airports attract a charge for a portion of their carbon emissions. This charge is to be met by submission to the EU of "carbon allowances", and aircraft operators have been provided with a portion of their allowance requirement as a "free" allocation based upon their share of total EU activity in 2010. On 21 January 2014 the Transport Committee of the European Parliament voted in favour of extending the 2012 moratorium on the ETS scheme in respect of flights which were not entirely within the EU. This moratorium was agreed to continue until the end of 2016 and requires a further vote by the EU to pass into law. Aer Lingus is compliant with EU ETS derogated requirements and has received free allowances equivalent to approximately 70% of its 2014 requirement. The balance of the 2014 requirement (i.e. approx. 30%) was purchased for €1.2 million.

A portion of the Aer Lingus carbon allowances for 2015 has been purchased already, and assuming a derogated scheme is in place and associated free allocation, we estimate that the ETS cost of compliance in 2015 would be circa €1.7 million based on a blended carbon prices of €6.50 per tonne at the reporting date.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of shares in issue during the year, excluding treasury shares.

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. As at 31 December 2014, dilutive potential ordinary shares relate to share awards and options granted that have satisfied specific performance conditions as set out in the underlying award or option agreement. In accordance with IAS 33.41 potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease profit per share or increase loss per share from continuing operations.

Earnings per share	2014	2013
(Loss)/profit attributable to owners of the parent (€ m)	(95.8)	34.1
Weighted average number of ordinary shares in issue ('000s)	532,633	531,822
Basic and diluted (loss)/profit per share (cent per share)	(18.0)	6.4
Weighted average number of ordinary shares in issue ('000s)	532,633	531,822
Dilutive effect of options and long term incentive plan ('000s)	-	4,597.0
Weighted average number of ordinary shares for diluted earnings per share ('000s)	532,633	536,419

2014 balance sheet movements:

The Group's balance sheet remains strong with net assets of €660.6 million at 31 December 2014 (December 2013: €852.8 million). Retained earnings of €334.7 million, decreased by €124.8 million following the once-off IASS pension provision of €190.7 million.

Aer Lingus gross cash increased by €38.1 million with gross debt decreasing by €87.4 million driven by scheduled finance lease repayments of €122.2 million leading to seven leases becoming unencumbered in the year. These repayments were offset by negative FX movements.

There were a number of significant balance sheet movements in 2014:

- Net capital expenditure of €55.3 million was incurred, largely driven by aircraft rotables, the fit out of the three Boeing 757s, fit out of airport lounges and a number of IT capital improvement projects. The depreciation charge of €90.0 million offset this expenditure, leading to a reduction in the carrying amount of the Group's fixed assets.
- Trade and other receivables increased by €19.9 million mainly driven by increases in prepayments in relation to engine contracts. See Note 22.
- Provisions increased by €17.6 million mainly as a result of increases in aircraft maintenance provisions and other provision increases (including an onerous lease obligation for non-flight equipment) offset by the settlement of restructuring obligations including the 2013 voluntary severance obligation. See Note 28 for other details.
- Following approval by shareholders of the IASS solution in December 2014 the Group recognised a provision and exceptional cost of €190.7 million. At this point, the funds were transferred to an escrow account and are disclosed as restricted cash on our statement of financial position as at 31 December 2014. From 1 January 2015 the once-off contributions became available to be transferred to individual's new defined contribution pension scheme accounts upon the execution of a waiver. As at 24 March 2015 €80.2 million of the €190.7 million has been transferred with €110.5 million remaining in escrow.
- The recognition of the €190.7 million provision in December 2014, gave rise to a deferred tax asset of €22.9 million which can be utilised against taxable profits over a five year period.
- The net derivative position has dis-improved by €85.3 million driven by the mark to market losses on the Group's portfolio of fuel hedges, offset by a gain in the Group's portfolio of foreign exchange hedges.

Quarterly Trading Review of 2014

Our quarterly results and the key performance highlights of each quarter are summarised below. Demand seasonality remains a key feature of Aer Lingus' trading. This seasonality has become more pronounced in 2014 compared with 2013, driven by our transatlantic expansion, which while, facilitating year on year performance in Q2 and Q3 led to a higher fixed cost base in the off-peak Q1 and Q4 periods. In Q4 2014 we also took a number of tactical actions to reduce short haul capacity from certain routes over the winter season to protect margin.

2014 - € million	Q1	Q2	Q3	Q4	Full Year
Short haul revenue	138.8	226.4	274.3	151.5	791.0
Long haul revenue	59.1	138.7	175.9	116.3	490.0
Retail revenue	38.7	51.7	59.0	37.6	186.9
Total passenger revenue	236.6	416.8	509.2	305.3	1467.9
Cargo revenue	10.6	11.0	11.5	13.1	46.3
Other revenue	12.2	9.9	10.4	10.1	42.7
Total revenue	**259.4**	**437.8**	**531.1**	**328.6**	**1556.9**
Fuel costs	66.8	103.5	114.3	93.5	378.1
Staff costs	68.1	75.1	76.1	81.4	300.6
Airport & enroute charges	71.1	107.3	115.2	83.2	376.7
Other operating costs	101.9	113.2	112.6	101.7	429.5
Total operating costs	**307.9**	**399.1**	**418.2**	**359.7**	**1484.9**
Operating profit/(loss) before exceptional items	**(48.5)**	**38.7**	**112.9**	**(31.1)**	**72.0**
Operating margin	(18.7%)	8.8%	21.3%	(9.5%)	4.6%
Operating profit/(loss) before exceptional items (2013)	*(45.5)*	*29.1*	*94.9*	*(17.4)*	*61.1*
Key performance indicators					
Passengers	1,833	2,782	3,052	2,099	9,766
Average fare yield per seat	72.87	101.49	121.47	91.43	98.93
Average fare yield per passenger	107.97	131.27	147.50	127.55	131.17
Load factor	69.8%	80.1%	86.2%	75.2%	79.0%

Q1 2014
Aer Lingus reported an operating loss of €48.5 million before net exceptional items, which was €3.0 million or 6.6% higher than Q1 2013. Total quarterly passenger revenue of €236.6 million was 3.9% behind Q1 2013 reflecting the later timing of Easter in 2014 compared to 2013 and the negative effect of the threatened industrial action on booking volumes over St. Patrick's weekend in March 2014. Retail revenue was 6.0% higher in the quarter with retail spend per passenger up 10.1%. Operating costs of €307.9 million were up marginally by 0.9% compared with Q1 2013. Long haul capacity increased by 2.4% with additional Shannon based services to Boston and New York launched in February and March 2014. Q1 2014 short haul capacity reduced by 2.5% compared to 2013. This reduction reflected planned adjustments to the deployment of short haul capacity in the context of continuing intense price competition in certain short haul markets.

Q2 2014
The Group delivered a strong performance in Q2 2014, reporting an operating profit, before net exceptional items, of €38.7 million, which represented 32.9% improvement on prior year and the highest Q2 operating result since 2010 despite negative impact of industrial action.

Q2 2014 passenger fare revenue increased by 11.1% with both passenger volumes and yields improving. Performance was supported by a relatively stronger April (even considering the timing of Easter) compared to 2013 and the successful launch of new San Francisco and Toronto routes. Long haul performed very strongly with passengers up 24.1%, yield per seat up 8.8% and load factor up 2.6% points. These positive improvements were somewhat offset by the impact of industrial action in May and June 2014 which resulted in flight re-bookings and other re-scheduling costs. However despite this, we still delivered a creditable short haul performance with revenues up 1.8%.

Operating costs in Q2 2014 rose 8.1% to €399.1 million. This increase mainly related to higher activity in the quarter relative to prior year with increased fuel, aircraft hire, additional staff and higher airport charges.

On a cumulative basis our first six month operating result was 39.6% ahead of the first half of 2013 with revenues up 6.0% driven by average fare per seat up 5.5% and passengers up 3.6%. In June 2014, the Group issued a trading update revising guidance downwards but by the end of July 2014 we were in a position to upgrade our full year 2014 operating profit (before net exceptional items) to be at least in line with 2013 (i.e. €61.1 million). This was driven by positive Q2 results and progress made in recovering bookings following the actual and threatened industrial disruptions in the first six months of 2014.

Q3 2014
The Group continued to perform strongly into Q3 2014 with an operating profit, before net exceptional items of €112.9 million, which represented an operating margin of 21.3% and was a 19.0% improvement on prior year. This was our highest Q3 operating result since the financial crisis. Q3 revenue was up 13.9% compared with prior year with growth across all activities. In particular the Group experienced a strong short haul performance with revenues of €274.3 million up 5.5% on Q3 2013 with a 5.2% increase in yield per seat and a 2.2%

increase in short haul passenger numbers. Long haul revenue also increased by 34.0% with the additional 28.8% capacity deployed in the quarter converted into 8.5% higher yields per seat and 0.5 percentage point increase in load factor.

Q3 operating costs of €418.2 million represented a 12.6% increase compared with Q3 2013; however this should be seen in the context of increased flying activity in the quarter with an additional 11.4% capacity deployed in combination with higher distribution, IT and project costs. Fuel increased 10.2% in the quarter associated with an 11.9% increase in fuel volume consumption, somewhat offset by a 2.2% decrease in unit fuel prices and the positive effect of the relatively weaker US$ in the quarter.

At the end of September 2014, our cumulative year to date operating profit, before exceptional items was €103.1 million, which represented a 31.5% increase on the prior year. Passenger revenue of €1,162.6 million was 8.4% ahead of 2013 and operating costs 7.6% higher. At the time of release of our Q3 2014 results announcement, we upgraded full year 2014 operating profit, before exceptional items, to be ahead of 2013 (i.e. €61.1 million).

Q4 2014

The Group reported an operating loss (before net exceptional items) of €31.1 million, €13.7 million higher than the loss reported in Q4 2013 (€17.4 million). Aer Lingus is typically seasonally loss making in the fourth quarter and the increase in the loss in Q4 2014 compared with Q4 2013 reflects the Group's 2014 expanded fleet, which while facilitating Aer Lingus year on year out performance in Q2 and Q3 2014, led to higher fixed costs in Q4 2014.

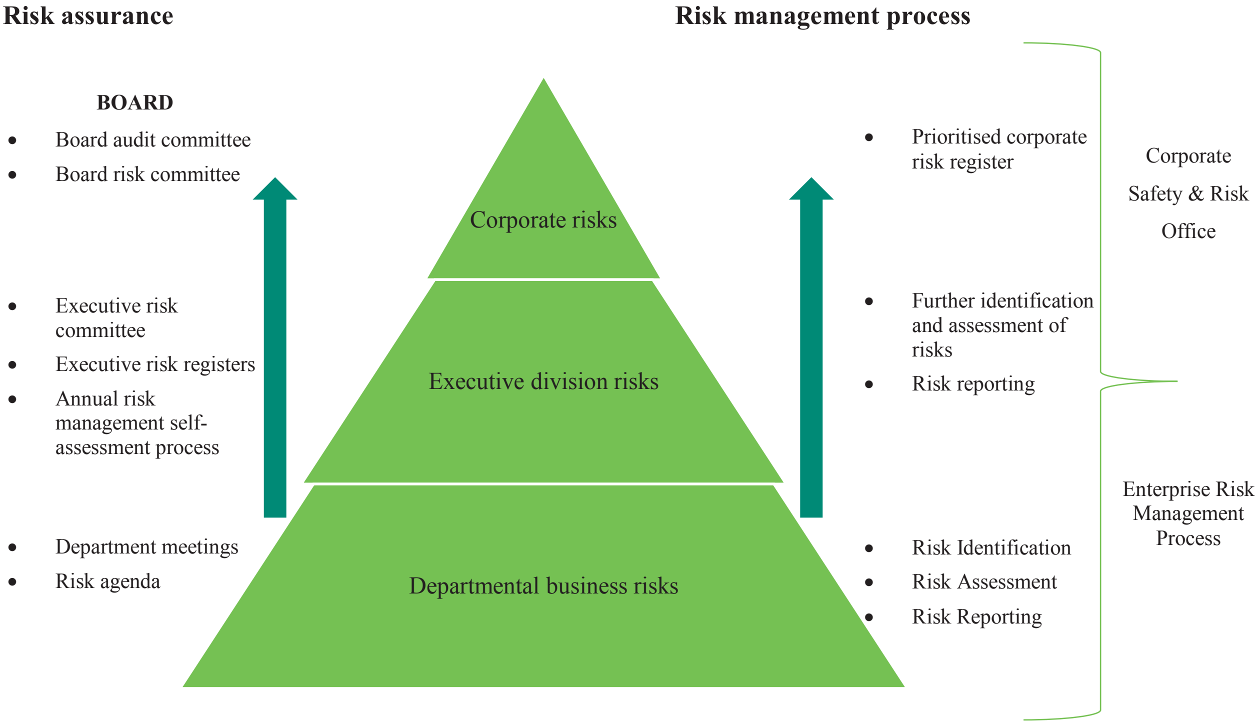
Total revenue was up 9.2% in the quarter, predominately driven by the additional 32.8% long haul capacity deployed in the quarter, resulting in a 38.8% increase in long haul fare revenue to €116.3 million. Short haul revenue declined by 3.8% in the quarter, related to deliberate tactical actions to reduce short haul capacity by 7.7% in order to focus on core routes and protect margins. Quarterly short haul yield per seat and yield per passenger improved by 1.5% and 2.5% respectively.

Operating costs of €359.7 million increased by 13.0% in Q4 2014, however this should be seen in the context of the impact of the expanded fleet in the quarter as discussed above. In particular fuel costs increased by 19.9% associated with a 9.7% increase in fuel volume consumption, somewhat offset by a decrease in unit fuel prices and the positive effect of the relatively weaker US$ in the quarter. Staff costs increased by 20.7% in Q4 2014 driven by additional FTEs year on year to support our transatlantic expansion and stabilisation payments incurred in December 2014.

Principal Risks and Uncertainties

The Board of Aer Lingus is responsible for oversight of the Group's risk management systems, which are designed to identify, manage and mitigate potential material risks to the Group's strategic and business objectives. A separate but parallel management system monitors flight safety risks. Our safety process is described in more detail on pages 38 to 39.

The risk framework adopted by Aer Lingus can be summarised as follows:



The key non-flight risks are classified into the following categories.

Risk classifications			
Stakeholder confidence	**Cost competitiveness**	**Organisational agility**	**Customer reach**

Key risk clusters										
Competition	Investor Relations	Market Risks	Cost & Revenue	Pensions	Change Management	Industrial Relations	IT Infra-structure	Fleet	BCDR *	Customer Focus

**Business Continuity and Disaster Recovery*

The Aer Lingus Enterprise Risk Management process incorporates all business units, grouped in accordance with Executive responsibilities. Business unit risk registers are managed locally by departmental "risk champions", with relevant ongoing business and project risks recorded in the local risk registers and risk assessed with appropriate mitigations identified and owners assigned to each risk. Top risks from the combined business units are escalated to the relevant Executive risk register, with detailed descriptions of risks, impacts and mitigation strategies.

The principal corporate, non-flight risks facing the Group are described below. This is not intended to be an exhaustive analysis of the risks which may arise in the ordinary course of business or otherwise. A specific identifier is attached to each risk indicating whether, in the Board's opinion; the risk is increasing, reducing, new or remains broadly unchanged compared to 2013.

Increased	**New since 2013**	**Unchanged**	**Reduced**
↓	▲	↔	↑

2014 risks classifications	2013 status & classification	Change	Description and impact	Mitigation strategy
Competition *(Stakeholder confidence)*	Competition (Strategic)	↑	Aer Lingus operates in an intensely competitive market across all our main route groups. Any failure to maintain our ability to compete so as to maintain and grow our market share in key markets may result in erosion of our revenue and margins. Our ability to maintain competitiveness is critical to the sustainability of our success. A continued evolution of our business model is required to ensure we remain competitive, especially in the context of Ryanair's repositioning of its passenger service offering closer to that of ours.	We pro-actively manage our capacity, services, revenues and costs to optimise our ability to retain and grow market share. Cost Optimisation and Revenue Excellence (CORE) is a key element of our strategy, aimed at delivering maximum agility at a cost competitive level, as well as enhanced customer propositions driving price premium. In 2014 we implemented a number of new load factor & yield initiatives, successfully moved our Heathrow operation to Terminal 2 and commenced a comprehensive program to redefine the guest experience across all of our key markets.
Customer Focus *(Customer reach)*	New	▲	Our business is dependent on delivering a product that our customers want and will return to purchase again. Aer Lingus needs to tailor continuously its proposition to the requirements of its three business sectors: Long-haul, UK & European cities and European leisure/ Mediterranean destinations.	Aer Lingus actively monitors its operational, financial and commercial performance (including customer feedback) across all three market sectors. It also reviews key market trends that will affect its position in the longer term. Specific initiatives are developed based on the outcome of these reviews. For example, the launch of our new business class product and the "Arrive before you Depart" initiative are responses to changing customer demands and market opportunities in the Long haul market. Similarly, in 2014 we completed an overhaul of our marketing platforms, and in 2015 will introduce 'The Keeping one step ahead programme'. This will include: re-launch of the aerlingus.com website and mobile application, launch of new short haul and premium products and the launch of new loyalty, recognition & reward programme.
Market Risks *(Cost competitiveness)*	Economic conditions/ Financial risk factors (Strategic and Financial)	↔	Aer Lingus operates in a sector where certain market parameters can strongly impact on our performance. Fuel and airport/en-route charges represented some 51% of the Group's total costs in 2014. Jet fuel prices and foreign exchange rates are volatile and airport charges are largely outside the Group's control. The Group is particularly vulnerable to increases in charges at Dublin, which is our hub airport.	Fuel hedging is actively managed in accordance with treasury policy and Board approvals. Recognising the dramatic change in oil prices in the second half of 2014, the Aer Lingus Board approved a once-off derogation from the standard policy, in order to remain aligned with the fuel hedging levels of peers. We actively engage with all our key airport partners to ensure our charges remain acceptable and explore every opportunity to off-set airport charges through innovative alternative revenue generating and cost saving measures. We also monitor US$ trading requirements and seek to hedge appropriately in accordance with defined treasury risk management policy. FOREX risk is also actively monitored and managed.

2014 risks classifications	2013 status & classification	Change	Description and impact	Mitigation strategy
Investor Relations *(Stakeholder confidence)*	New	▲	On 26 January 2015, International Consolidated Airlines Group, SA ("IAG") confirmed that it had submitted a revised proposal to make an offer for Aer Lingus, structured as a cash payment of €2.50 per share, payable upon completion, in addition to an ordinary dividend of €0.05 per share (the "Revised Proposal") and that it intended to engage with the Irish Government in order to secure its support for the transaction. On 27 January 2015 the Board announced that it had indicated to IAG that the financial terms of the Revised Proposal were at a level at which it would be willing to recommend, subject to being satisfied with the manner in which IAG proposes to address the interests of relevant parties. On 13 February 2015, the Board stated its view that a combination of Aer Lingus with IAG has a compelling strategic rationale and would deliver significant benefits for Aer Lingus, its employees, its customers and for Ireland. There can be no guarantee that an offer will be made, or if one is made, that it would be successful. There are likely to be several consequences for Aer Lingus if the proposed transaction does not proceed. As a stand-alone airline, Aer Lingus would not have the same growth opportunities and would be exposed to a greater degree of risk than would otherwise be the case in a combination with IAG. In particular, reduced growth prospects in combination with possible detrimental changes to Aer Lingus' commercial partnerships could lead to lower than expected passenger traffic through the airline's networks. This in turn may require additional restructuring measures, including reducing staff costs, beyond the savings currently anticipated in the current CORE programme. As an immediate consequence of the transaction not proceeding, Aer Lingus' share price may decline to a price below that which has been potentially offered by IAG. In case the transaction fails because of the Irish Government's decision to not sell its shares on grounds other than price, this may have a negative impact on the Company's ability to attract shareholding in the Company.	The Board and Executive Committee remain focused on implementing Aer Lingus' current strategic plans on a "business as usual" basis so that the Group can continue to operate as a competitive and effective airline from both from a revenue and cost management perspective regardless of the progress of the proposed IAG transaction. In the event that the transaction does not proceed, Aer Lingus would place significant and exceptional focus on relations with commercial partners, investors, employees, on talent management, retention as well as on cost and revenue management. The objective of these actions would be to ensure that Aer Lingus can continue to effectively implement its standalone business plan and that the execution of this plan remains unaffected, to the extent possible, by any negative effects of the potential IAG transaction not proceeding.

2014 risks classification	2013 status & classification	Change	Description and impact	Mitigation strategy
Change Management *(Organisational agility)*	Organisational capacity/ people (Operational)	↔	Management and staff are keenly aware that change is constant and essential. We consider it an opportunity and face it confidently and with creativity. For Aer Lingus to continue growing on a sustainable basis it is essential that we improve our ability to adapt to changing market and customer demands.	Through our annual staff engagement survey process we identify where we are effective in implementing change and where we need to improve. Action plans derived from the survey results are integrated into management activity on an ongoing basis, ensuring we remain agile, flexible and committed to delivering change to improve both our business and our workplace. The Company is also engaged in a change programme to create a flexible and entrepreneurial company.
Industrial Relations *(Organisational agility)*	Industrial relations (Operational)	↔	The Company has a largely unionised workforce and collective bargaining takes place on a regular basis across a range of issues. A successful relationship with our staff stakeholders is vital to our performance.	We work with all of our people and partners to ensure we clearly explain the rationale and benefits of change. Where we disagree on the methods of implementation we will introduce an internal disputes mechanism to ensure our disagreements do not impact on our customers as they have done in the past. Progress on staff related initiatives was delayed by industrial action in Q2 2014 and the implementation of the proposed IASS solution. However we are at an advanced stage in development of our Internal Dispute Resolution panel which should see a better way of resolving disputes between the Company and its employees.
IT Infrastructure *(Organisational agility)*	IT environment (Operational)	↔	The Company is dependent on IT systems for most of its primary business processes. The performance and reliability of these systems is critical to our ability to operate and compete effectively. The ever increasing threat from cyber-attack is real and needs to be managed actively.	The Company follows a systematic project management approach, properly resourced and supported by each Executive division to ensure timely implementation of required IT change. Over the last years, Aer Lingus has significantly invested in its IT systems. Aer Lingus employs best practice IT security protocols to mitigate the risk of cyber-attack with regular penetration testing
Cost & Revenue *(Cost competitiveness)*	Cost and revenue management (Financial)	↑	The nature of our markets can make it very difficult to pass cost increases on to passengers without adverse impact on traffic volumes. Failure to enforce rigorous control over all of our costs, and to maximise opportunities to generate revenue through effective yield management and targeted ancillary sales promotions, will adversely impact on our margins.	The CORE programme was launched in early 2014 to continue Aer Lingus' product differentiation and price competitiveness in a market in which competitors are increasingly seeking to emulate our successful "*value carrier*" model Several commercial initiatives successfully concluded in 2014 including the introduction of 26 booking classes (€10m annual benefits at maturity); additional aircraft for summer schedule; move to Heathrow Terminal 2; re-launch of business class service, new website and mobile app and the launch of new retail products including merchandising. CORE recently re-launched with cost savings of €40 million targeted by the end.

2014 risks classification	2013 status & classification	Change	Description and impact	Mitigation strategy
				2016 and further commercial initiatives to be implemented. The application of lean methodology as a vehicle to streamline processes has been applied successfully throughout the last number of years within our Maintenance and Engineering department and shall continue to roll out across other areas of the operation.
Pensions *(Cost competitiveness)*	Pensions (Financial)	↓	Aer Lingus remains subject to a number of pension related risks following the implementation of the IASS solution. These pension related risks include: • Litigation risk • Industrial relations risk Please refer to Part III ("Risk Factors") of the IASS proposal circular issued to shareholders on 18 November 2014 for a comprehensive description of the ongoing pension related risks to which Aer Lingus is exposed.	Significant progress has been made in addressing pension's risk. The IASS solution was approved at the EGM on 10 December 2014, with approval from the Pensions Authority on 23 December 2014. Implementation commenced on 1 January 2015. On 3 December 2014 the Pensions Authority approved a funding proposal in regards of the Pilots pension scheme that does not involve any capital contribution by Aer Lingus Limited.
Fleet *(Organisational agility)*	Fleet programme (Operational)	↑	Maintaining the correct fleet specification and a balance between owned and leased aircraft for our business needs is critical to the success of our business model.	Following conclusion of our agreement with Airbus to take delivery of nine A350 aircraft between 2018-2020, our long haul fleet renewal programme is now entering into the implementation planning phase, with detailed project plans and financing initiatives underway. Short haul fleet replacement is also being actively monitored, with aircraft retirement and replacements being tactically managed in accordance with growth projections/requirements.
Business continuity disaster recovery (BCDR) *(Organisational agility)*	Operational Disruption (Operational)	↓	Long term disruption or the inability to promptly recover from short term disruptions, can have an adverse material impact on the Group's business in terms of lost bookings and revenue, additional cost and damaged customer confidence. In the event of both foreseeable and unanticipated events that threaten our ability to continue to operate as a viable business, Aer Lingus must have in place a robust business resilience plan.	Scenario based business continuity plans in place for all foreseeable contingencies. Robust and independently validated Emergency Response Plan for aircraft related crisis events. Comprehensive Business Resilience Planning process to be developed, encompassing Major Disruption planning, Crisis Management and IT Disaster Recovery, with formalised governance and Executive oversight. Corporate Safety & Risk Office to oversee this process.

Board of Directors

Colm Barrington (Chairman)
Colm Barrington was appointed to the Board in September 2008 and was appointed Chairman of the Board in October 2008. On 7 January 2015 he assumed additional executive responsibilities to bridge a period while the Company transitioned to a new Chief Executive Officer. From 1 March 2015, the Company reverted to the conventional model of separate Chairman and Chief Executive Officer.

Colm is Chief Executive Officer and a Director of Fly Leasing Limited, the NYSE listed, Irish based aircraft leasing company. He was Managing Director of Babcock & Brown in Dublin from 1994 to 2007, specialising in aircraft lease management and financing. Prior to that he held a number of senior executive management positions in GPA Group plc from 1979 to 1993 when he was appointed president of GE Capital Aviation Services Limited following its acquisition of GPA.

Colm's many years of experience in executive leadership positions in the global aircraft leasing industry and his business relationships with airlines world-wide, have provided him with a range of knowledge, skills and expertise of direct relevance to his roles as Director and Chairman of the Board of Aer Lingus and as a member of the Nominations, Remuneration and Safety Committees.

Stephen Kavanagh (Chief Executive Officer)
Stephen Kavanagh was appointed as Chief Executive Officer and Executive Director with effect from 1 March 2015. Prior to his appointment as Chief Executive Officer, Stephen had served as Chief Strategy & Planning Officer since early 2014 and before that Chief Commercial Officer from 2009. Stephen 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. He joined the senior management team in March 2006 as Planning Director and was appointed Corporate Planning Director in November 2007. He is a graduate of University College Dublin.

Bernard Bot (Chief Financial Officer)
Bernard Bot was appointed Chief Financial Officer Designate on 18 July 2014 and became Chief Financial Officer and Executive Director on 1 September 2014. Prior to joining Aer Lingus Mr. Bot was Chief Financial Officer of TNT N.V and TNT Express N.V. from 2010 to 2014 and also held the positions of Executive Board member, management Board member and group director business control. His early career was spent with McKinsey & Company, where he spent twelve years, latterly as a partner. Bernard was at the time of his appointment and remains Chairman of the Supervisory Board of Avio Diepen B.V., a provider of aerospace supply chain management solutions. He holds an MSc in Economic from Erasmus University and an MBA from the University Of Chicago Booth School of Business. Bernard's proven experience as the Chief Financial Officer of a listed international company and strong business acumen has equipped him with the necessary skills and expertise for the roles of Chief Financial Officer and Executive Director.

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

Montie's direct executive level experience in the aviation industry enables him to bring airline specific skills and expertise to bear on the Board of Aer Lingus.

Montie has served as a member of the Risk Committee since June 2010 and as a member of the Audit Committee since August 2013.

Laurence Crowley
Laurence Crowley was appointed to the Board on 9 January 2009 and is the Senior Independent Director on the Board. He is chairman of the Middletown Centre for Autism, Ecocem Limited, Realex Payments and the Economic and Social Research Institute. 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, Bord Gais Eireann, Rothmans International and Executive Chairman of P J Carroll. 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 a 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 for his services to education. In 2009 he was awarded an honorary CBE by Queen Elizabeth II for services to UK-Irish relations.

Laurence has vast experience as both a chartered accountant and board member. This experience enables him to make a significant contribution to the Board as both Non-Executive Director and Senior Independent Director. His accounting expertise is of particular relevance to his membership of the Audit Committee.

Laurence has served as chairman of the Nominations Committee since January 2009. He has also served as a member of the Audit Committee since January 2009 and was chairman of that committee from December 2010 to August 2013.

Emer Gilvarry
Emer Gilvarry was appointed to the Board with effect from 28 March 2014. Emer is Chairperson of the law firm Mason Hayes & Curran, following two three-year terms as managing partner at the firm. A litigation lawyer, her practice primarily involves dispute resolution in contentious partnership and shareholder issues. Ms. Gilvarry also specialises in project management and acts as a legal adviser to corporates and boards with a particular emphasis on governance issues. Emer is a member of the advisory board at UCD Michael Smurfit Graduate Business School and lecturers regularly at both UCD and the Law Society of Ireland. She is a member of the board of The Ireland Funds and of the council of The Economic and Social Research Institute. Emer is a former member of the boards of each of The Coombe Hospital, The Friends of St. Luke's Hospital and FÁS.

Emer's extensive legal experience in dispute resolution, commercial law, corporate law and governance and her significant executive leadership experience enables her to contribute significantly to the Board of Aer Lingus. Emer has also served as a member of the Remuneration and Safety Committees since July 2014.

John Hartnett
John Hartnett was appointed to the Board with effect from 1 January 2014 and is a senior technology executive & investor based in Silicon Valley, California. A native of Limerick, John is founder and Chief Executive Officer of SVG Partners LLC, a Silicon Valley investment & advisory firm. He is also founder and president of the Irish Technology Leadership Group (ITLG), a network of global Irish technology leaders whose main focus is to foster the links between Ireland and Silicon Valley in the areas of innovation, investment, education and entrepreneurship. He currently serves on the board of University of Limerick Foundation and also serves as Executive Chairman of Daybreak Information Technologies, chairman of Sisaf Limited and Director of Mcor Technologies. He served on Secretary of State Hillary Clinton's Northern Ireland Working Committee 2009 - 2011. He is a member of the Irish Government's Global Irish Network advisory group and the Global Irish Economic Forum. John has over 25 years of executive level experience leading global sales, marketing, and operations. Previously he was Chief Executive Officer at G24 Innovations, a leading thin film solar company. He held the position of senior vice president of global markets at Palm, Inc., (NASDAQ: PALM), where he was responsible for worldwide sales, service and support. At Metacreations, (NASDAQ: MCRE), he was senior vice president of worldwide marketing and operations. He has also held senior management positions at Claris/Apple, Teradata, Digital Equipment (DEC) and Wang Computers.

John's extensive executive level experience in the information technology sector enables him to bring significant insight to the Board in that regard.

John has served as a member of the Nominations Committee since January 2014.

Nigel Northridge
Nigel Northridge was appointed to the Board with effect from 1 January 2014. Nigel is from Belfast and started his career with Gallaher Limited. Nigel worked for Gallaher Group from 1976 to 2007 where he was promoted to group Chief Executive Officer in 2000. Nigel also spent a year with Japan Tobacco International in 2007-2008 to help ensure the successful integration of Gallaher following its acquisition. He is Non-Executive Chairman of the board of Paddy Power plc, a board he joined in 2003 and served as senior independent Director as well as chairman of its remuneration committee prior to assuming the role of chairman of its board. He is currently chairman of the board of Debenhams plc, the retailer, a role he assumed in 2010 and is also a Non-Executive Director of Inchcape plc, the automotive retailer. Nigel was a Non-Executive member of the board of Aggreko plc from 2002 to 2010 where he was chairman of its remuneration committee and served as Senior Independent Director from 2005 to 2010. Between 2008 and 2010 he was a Non-Executive Director of Thomas Cook Group plc.

Nigel's extensive Executive and Non-Executive experience enables him to make a significant contribution to the deliberations of the Board and his previous remuneration experience is particularly relevant to his role as chairman of the Board's Remuneration Committee.

Nigel has served as chairman of the Remuneration Committee since January 2014, at which time he was also appointed as a member of the Nominations Committee.

Frank O'Connor
Frank O'Connor was appointed to the Board with effect from 14 March 2014. He is co-founder and, since 2002, Chief Executive Officer of Airtel ATN Limited, an independent supplier of data communication solutions for the aerospace industry. Frank has over 20 years of experience in aviation in the field of aeronautical telecommunications networks, having joined Retix as software engineering manager in 1990 prior to co-founding Airtel ATN Limited in 1998. Prior to Retix, Frank spent four years at CACI where he managed the Dublin office and was responsible for the development of simulation tools. Frank started his career at Systems Dynamics, where he spent eight years including two in Germany and the Netherlands. Frank has a B.Sc. in Computer Science from University College Dublin.

Frank's significant executive level experience in founding and leading a supplier of data communication solutions to the aviation and aerospace industry enables him to bring a particular insight to the Board in that regard. Frank has served as a member of the Risk Committee since July 2014.

Nicola Shaw
Nicola Shaw was appointed to the Board on 25 January 2010. Nicola is Chief Executive Officer at High Speed 1, the railway between St Pancras in London and the Channel Tunnel that connects with the international high speed routes between London and Paris and London and Brussels. Prior to that Nicola served as Executive Director of FirstGroup plc running their UK, Ireland and Germany bus division. She previously worked in senior positions in both the UK Strategic Rail Authority and the Office of the Rail Regulator. She was also a transport consultant with Bechtel and Halcrow and holds a BA in modern history and economics from Oxford University and an MSc in transport from MIT.

Nicola's significant experience in the transport sector enables her to bring directly relevant skills and expertise to the Board. Her understanding of the financial and performance fundamentals of listed companies and those in the transport sector make her ideally suited for membership of both the Audit and Remuneration Committees.

Nicola has served as a member of the Audit and Remuneration Committees since June 2010 and assumed the chairmanship of the Audit Committee in August 2013.

William Slattery
William Slattery was appointed to the Board on 12 July 2013. He is an executive vice president of State Street Corporation and Head of Global Services, Europe, Middle East and Africa. William worked for the Central Bank of Ireland for 23 years until 1996. He was responsible for the supervision of Dublin's International Financial Services Centre (IFSC) from its inception until 1995 and held the position of deputy head of banking supervision immediately prior to leaving. After leaving the Central Bank of Ireland, he worked for Deutsche Bank AG and spent five years in London where, from 1999 to 2001, he was managing director and Global Head of Risk Management for the Asset Management Division, and a member of the Deutsche Bank AG Group Risk Board. William is a former member of Ireland's National Competitiveness Council and of the Clearing House Group, an umbrella group with responsibility for the oversight of the IFSC, chaired by

the secretary general of the Department of the Taoiseach. He is also outgoing chairman of the executive steering committee of IFSC Ireland, which was formed by the leading representatives and professional bodies associated with international financial services in Ireland. Mr. Slattery is also a former chairman of Financial Services Ireland. He was a member of the Review Group on Public Service Expenditure, established by the Irish Government in 2009 and of the 2nd Public Service Benchmarking Body, established in 2006.

William has served as chairman of the Risk Committee since January 2014. William's extensive banking, financial services, regulatory and risk management experience enables him to make a substantive contribution to the work of the Board and is particularly relevant to his chairmanship of the Risk Committee.

Nicolás Villén
Nicolás Villén was appointed to the Board with effect from 1 January 2014. Nicolás is a former chief executive officer of Ferrovial Aeropuertos, the Airport Division of Ferrovial which included all BAA Limited ("BAA") airports (Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen, Southampton and Naples). Prior to that, Nicolás was Chief Financial Officer of Ferrovial from 1993 to 2009. During his tenure at Ferrovial, he held numerous international board positions, including at BAA, now Heathrow Airport Holdings, from the time of Ferrovial´s acquisition in 2006. He was also a member of its Audit Committee, its health, safety and environment committee, and chairman of the remuneration committee at BAA. He is also a senior adviser to IFM Investors (an Australian Fund Management Company) Global Infrastructure Fund and an industry adviser to Advent International. Currently, Nicolás serves as a Director on the boards of Dinamia and CLH, two publicly listed companies in the Madrid Stock Exchange. He is also chairman of their audit committees.

Nicolás began his career in the USA with Corning Glass, later holding positions in finance and marketing in Abbott Laboratories and Smithkline Beecham in Spain where he was chief executive officer. Before joining Ferrovial he was Chief Executive Officer of private equity firm Midland Montagu in Spain. Nicolás holds a degree in industrial engineering from Madrid University, a MSc from the University of Florida and a MBA from Columbia University. He was awarded a Fulbright Scholarship and a Samuel Bronfman Fellowship. Nicolás lives in Madrid.

Nicolás' wide-ranging executive and financial experience, including in the aviation sector, enables him to make a substantive contribution to the Board and its committees.

Nicolás has served as a member of the Audit Committee since January 2014. He has also served as chairman of the Safety Committee since January 2014.

Executive Management Team

Stephen Kavanagh
Chief Executive Officer
See Board of Directors on page 34.

Bernard Bot
Chief Financial Officer
See Board of Directors on page 34.

Federico Balzola
Chief People and Change Officer
Federico Balzola was appointed as Chief People and Change Officer of Aer Lingus Group plc with effect from 1 September 2014 and is a member of the Company's Executive Team. Formerly Southern Europe Regional HR Director at Reckitt Benckiser, Federico has extensive experience at senior level in human resources within major industries in Europe. Prior to that, he held senior HR positions in the Gillette Company and in Procter and Gamble between 2005 and 2008. He also had various HR roles in the Danone Group between 1991 and 2005. Federico is a graduate from Université Paris IX Dauphine, France where he gained a BA in Economics and Business and holds an MS in Economics from Università Bocconi, Milan, Italy.

Dónal Moriarty
Executive Counsel
Dónal Moriarty was appointed as Executive Counsel with effect from 1 January 2012. The Executive Counsel Function ensures that the existing expertise within each of the Legal, Company Secretarial, Aero-political/Regulatory Affairs, Internal and External Communications and Public Relations areas are directly represented on the Executive Team. In this manner, guidance and advice is provided directly to the Executive Team and the Board on the legal, regulatory, compliance and reputational implications of their decision making. Dónal is a solicitor and was Company Secretary at Aer Lingus from early 2009 to September 2012. Prior to joining Aer Lingus he spent nine years with software company IONA Technologies, latterly as Assistant General Counsel. Prior to that he worked in practice as a solicitor in the Corporate Department of William Fry. Dónal is a graduate of University College Dublin.

Mike Rutter
Chief Revenue Officer
Mike Rutter was appointed as Chief Revenue Officer at the start of April 2014. Mike previously worked in the aviation, healthcare, pharmaceutical and securities sectors. Prior to joining Aer Lingus, Mike spent 12 years in Flybe where he held a number of Executive positions spanning commercial and operational responsibilities. During his time in Flybe, he introduced baggage charging, at the time a global first, and also led Flybe's business expansion into Europe building a 28 aircraft airline headquartered in Helsinki.

Ravi Simhambhatla
Chief Technology Officer
Ravi Simhambhatla was appointed as the Chief Technology Officer with effect from 18 June 2012. Ravi's career to date spans three continents, bringing with him a wealth of global experience in technology innovation, gained from working in senior Director and CIO roles in the aviation, software and motor industries. Prior to working for Aer Lingus, Ravi worked for Tesla Motors as Vice President Information Technology. He has particularly strong experience of technology within the aviation industry having spent five years with Virgin America. He joined Virgin in 2006 during its start-up phase and pioneered a systems architecture and infrastructure designed to drive differentiated customer experiences and support strong e-commerce platforms. He also spent a year in Dublin in the 1990s while working with GE Information Services.

Robert Somers
Executive for Flight Operations and Contract Flying
Robert Somers was appointed as the Executive for Flight Operations and Contract Flying with effect from 1 February 2014. Prior to that Robert had served as Director of ACMI and White Tail Flying since February 2013. Before he joined Aer Lingus, Robert was CEO of the Swiss Charter and ACMI airline "Hello". He was also the CEO of Swiss Aviation Training. Robert is a qualified aircraft avionics engineer and qualified Captain with Type ratings and instructor privileges on various aircraft including the Boeing MD80/90 and Airbus A320. He holds a masters degree in International Executive Business Management from Zurich. Robert was appointed as Accountable Manager of Aer Lingus with effect from 4 February 2015.

Fergus Wilson
Chief Operating Officer
Fergus Wilson was appointed as the Chief Operating Officer with effect from 1 January 2012. Fergus had served as Chief Operating Officer on an interim basis since July 2011 and from 2006 led the Maintenance and Engineering function as Post Holder for Continuing Airworthiness and Maintenance. He was appointed to the senior management team in 2002 in the role of Deputy Chief Engineer having previously served in senior management roles within the former regional airline Aer Lingus Commuter. Fergus is a licensed aircraft maintenance engineer in airframe, powerplant and avionic disciplines having initially served an apprenticeship with Aer Lingus, joining in 1978. He holds an MBA from the Open University Business School.

Safety and Security Statement

Aer Lingus Safety Management System ("SMS")

Safety is a core corporate value of Aer Lingus and we are committed to maintaining a safe, healthy and sustainable working environment wherever we operate. We actively manage safety as an integral part of all operations, both in the air and on the ground. We rely on the collaborative efforts of our high performing teams who, together, make Aer Lingus unique, successful and safe.

We are committed to implementing, developing and improving strategies, management systems and processes to ensure that all our activities uphold the highest level of safety performance. Safety depends on the cooperation of all employees in the organisation. Our aim is not simply to avoid accidents but to motivate and empower people to work safely.

Aer Lingus has developed a fully integrated Management System that has been accepted by the Irish Aviation Authority, and meets with the requirements of EU Commission Regulation 965/2012 – EASA Air Ops. The system is directed by the Corporate Safety and Risk Manager ("CSRM"). This role reports directly to the Chief Executive ensuring continued accountability and awareness of these issues and their importance within the Group. The CSRM has responsibility for the co-ordination and oversight of the key SMS components: Air Safety, Health and Safety, Security, Compliance, Enterprise Risk Management and Emergency Response Planning.

The SMS involves the ongoing routine collection and analysis of safety data during the ordinary course of business, which enables proactive risk management. This includes Flight Data Monitoring, a Confidential Safety Reporting System and a Hazard Identification and Risk Analysis (HIRA) programme. The principles of air safety management are integral to all Aer Lingus' training programs. Courses are designed around the prevention of accidents and incidents and cover all aspects of our operation, including the handling of dangerous goods and aviation security. Training records and processes are regularly subject to external review and audit.

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

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

The following also support our SMS:

- A Board Committee on Safety (see below);
- A Corporate Safety Review Board responsible for directing overall safety policy and governance;
- Departmental Safety Action Groups responsible for the identification, evaluation and control of safety-related risks;and
- An Emergency Response Plan, a company-wide process in place that ensures readiness for any crisis and provides training for crisis management, including the performance of regular crisis management exercises.

Air Safety

Aer Lingus' Corporate Safety and Risk Office ("CSRO") acts as an independent monitor of safety risk management and provides independent safety assurance to the Accountable Manager. This office focuses on accident prevention, hazard and risk analysis and promotes best practice and awareness throughout the Group. The CSRO operates the Group's Safety Reporting System, its Occurrence Database and a Confidential Safety reporting system. In 2014 the CSRO implemented a new initiative known as Embedded Safety Managers. A dedicated team of subject matter experts in each operational department has been recruited to coordinate all safety management activities at local level, with direct and indirect reporting lines established to ensure effective communication of safety information. This new layer of safety management across the organisation significantly enhances our levels of safety assurance.

Aer Lingus participates in a number of international safety organisations and forums including: European Aviation Safety Agency, European Commercial Aircraft Safety Team, International Air Transport Association and the Flight Safety Foundation. 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. The CSRO also actively collaborates with our industry partners in Aer Lingus Regional (Stobart Air), Air Contractors, jetBlue Airways and Virgin Atlantic Airways, as well as participating in the Etihad Partners Strategic Safety Group.

Board Committee on Safety

The Aer Lingus Board has a Safety Committee, which assists the Board in discharging its responsibility for safety. This includes ensuring that adequate safety regulations and procedures are in place, that such procedures are complied with and periodically reviewed, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed.

This Committee met four times in 2014, with the CEO, CSRM and the Corporate Health & Safety Advisor in attendance, to be appraised of safety performance and developments within the organisation.

Health and Safety

The Company maintains a well-established Health and Safety Office (HSO). Under the direction of the Corporate Health & Safety Advisor, the office regularly reviews and develops policy. The HSO focuses on accident prevention via a hazard and risk assessment programme. The health and safety officers run a continual programme of training in consultation with line departments, advising on development of best practice and managing incident reporting and occupational accident investigation procedures.

It is Aer Lingus policy to have as a constant objective the creation and maintenance of a safe working environment for its staff, contractors and their employees and other members of the public. The Group has a Safety Statement, based on compliance with all relevant legislation and regulations, which specifies how this should be implemented. Annual reviews are carried out to ensure compliance and system effectiveness.

Compliance Monitoring

The Compliance Monitoring Management System provides regulatory compliance oversight of both technical and operational activities, as well as all third party and partner airline contracts. The Compliance Department performs the oversight and internal quality assurance audit function of Aer Lingus and contracted organisations in order to comply with the requirements of IAA and EASA legislation.

Security

The Group's Corporate Security Office acts in an advisory and consultative capacity in relation to all aspects of both corporate security and aviation security. The aim of aviation security is to protect passengers, crew, staff and members of the public and civil aviation in general from acts of unlawful interference.

Aer Lingus ensures that both directly employed staff, handling agents and contracted agencies across the network are fully trained regarding aviation security requirements and made aware of the need for a high level of security and vigilance at all times. Aer Lingus achieves this aim by compliance with all aviation security statutory and regulatory requirements in jurisdictions where we operate.

Aer Lingus continues to ensure its Disruptive (Unruly) Passenger Policy is followed. This policy is made available to all staff and handling agents to prevent and detect unruly behaviour that can cause discomfort, inconvenience or injury to other passengers, crew or ground staff.

The Corporate Security Office pursues a collaborative approach with the IAA toward maintaining our continuing high level of compliance and adoption of best security practice.

The Corporate Security Office is responsible for development and implementation of the Aer Lingus Air Carrier Security Programme, which sets out the security policies and processes by which regulatory requirements are met. Our Policy is to promote the continuous improvement of our security management system and security culture that encourages the reporting of security incidents.

Corporate Social Responsibility Statement

Aer Lingus is committed to conducting its business in an ethical and socially responsible manner. We aim to make a positive contribution to society. We support and encourage our employees in making a positive contribution to the communities in which we operate.

Environment
Aer Lingus acknowledges its responsibility in terms of the environmental impact of its operations. Balancing the protection of the environment with people's need to travel is essential for both ethical and business reasons. The airline continues to pursue initiatives to off-set the impact of its operations on the environment.

Fleet
Aer Lingus operates a young and fuel efficient fleet. The average age of the fleet was 9.7 years as at 31 December 2014.

Air Emissions
Aer Lingus operates a focused "fuel conservation plan" to minimise fuel consumption 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 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. 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 engine 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.

Aer Lingus fully complies with the legislative requirements of the European Union Emissions Trading Scheme. In doing so its 2013 CO_2 emissions were reported to the EPA even though a late change to legislation did not mandate the submission.

Waste Management
Aer Lingus is committed to managing its waste effectively by minimising, recycling and disposing of waste materials. The airline has a number of programmes in place to divert waste from landfill. 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 the 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.

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.

Our People
We want our employees to have every opportunity to be the best that they can be, for themselves and for our customers. To deliver our vision of 'Connecting Ireland to the World' while offering great customer service, it is important that we share and live the values and behaviours that make Aer Lingus unique and successful. Our five values are team, humanity, courage, performance and honesty.

Recruitment
We are committed to recruiting the best people and to developing their careers throughout their time with Aer Lingus. As a result, our airline is viewed as an employer of choice. Through our recruitment policies and procedures we provide equal access to all qualified candidates and avoid all forms of discrimination. Our objective is always to select the candidate most suitable for each position, on the basis of pre-set selection criteria.

Learning and Development
Aer Lingus is committed to providing high-quality learning to support the safe and efficient operation of the business. Our primary focus is on mandatory training 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 safe, consistent and satisfactory customer experience is delivered. 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. Aer Lingus has for many decades made a significant contribution to investing in its people, providing aviation expertise which not only benefits the organisation but the Irish economy with a focus on internships, engineering apprenticeships and cadetships.

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 ensures compliance with all relevant equality legislation. During 2014 a total of 49 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 airline, 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.

Supporting Charitable Organisations
Aer Lingus has a strong tradition of providing support for good causes and community initiatives both within Ireland and overseas. The airline continued to make a significant contribution to a wide range of organisations in 2014 including Special Olympics Ireland, The

Children's Medical and Research Foundation (Our Lady's Children's Hospital, Crumlin), GOAL, the Irish Cancer Society, St Vincent de Paul and BBC Northern Ireland Children in Need.

UNICEF – Change for Good
In 2014, Aer Lingus passengers and cabin crew raised over US$820,000 by placing unused currency in special envelopes on flights. This brings the total amount generated by this long running partnership to almost US$18 million since 1997. The monies raised through the Change for Good programme has helped to provide thousands of vulnerable children in deprived areas of the world with the essentials for a safe and healthy childhood.

Supporting Businesses
Aer Lingus supports many organisations and initiatives focussed on promoting business and international trade. In 2014 we sponsored many business initiatives including, "the Aer Lingus Viscount Awards" (now in its sixth year), where Aer Lingus promotes the economic ties between Northern Ireland and Great Britain.

Aer Lingus also supports the 'Gateway to Europe' initiative, giving support in the form of flights for Irish businesses exhibiting in cities across North America, in an effort to encourage US business to locate and invest in Ireland. We also supported Connect Ireland, an organisation supporting and encouraging the development of businesses locating in Ireland.

Sports Sponsorship
The airline continued its support of community based sports initiatives throughout 2014 through its partnership with Dublin GAA and the Gaelic Players Association. Aer Lingus was the Official Airline Sponsor of Ulster Rugby in 2014 and the Ulster Grand Prix.

Employee Support
Aer Lingus encourages and supports employees involved in fundraising for charitable initiatives through their sports clubs and associations. One such project was 'Difference Day' where over 100 Aer Lingus employees volunteered their time, assisted by the local community in Ballymun and St Michaels house students. The undertaking involved renovating and creating a 'magical' garden for the local community of Ballymun to use and enjoy.

In addition, the Company participates and facilitates charitable donations by its employees through payroll deductions for Air Concern. This Dublin Airport based initiative provides financial assistance to families in need in the community working with the Ballymun Money Advice and Budgeting Service.

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

Directors' Report

Year ended 31 December 2014

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 2014.

Principal activities and future developments

The principal activities during the year continued to be the provision of air travel services. The Chairman's Introduction and Chief Executive Officer's Review on pages 3 to 7 reports on developments during the year, on the state of affairs at 31 December 2014, on events since 31 December 2014, and on likely future developments. Further information with respect to the review of the business and future developments is contained in the Operating, Financial and Quarterly Review on pages 8 to 28. The financial statements for the year ended 31 December 2014 are set out in detail on pages 81-139.

Information on the key performance indicators applicable to the Group are detailed in the Financial Highlights on page 1, the Chairman's Introduction on pages 3 to 5, the Chief Executive Officer's Review on pages 6 to 7 and in the Operating, Financial and Quarterly Review on pages 8 to 28.

Results for the year and state of affairs as at 31 December 2014

The Consolidated income statement for the year ended 31 December 2014 and the Consolidated statement of financial position at that date are set out on pages 81 and 83 respectively. The loss for the year after tax amounted to €95.8 million (2013: profit of €34.1 million).

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

	€m
Balance as at 31 December 2013	459.5
Total comprehensive loss for the year taken to retained earnings	(104.0)
Dividends paid	(21.3)
Exercise of share awards	0.5
Balance as at 31 December 2014	**334.7**

Total equity decreased by approximately €192.2 million during the year primarily as a result of the movement in retained earnings for the year of €124.8 million, due to a total comprehensive loss of €104.0 million mainly driven by the exceptional charge of €190.7 million in relation to the IASS pension solution.

Substantial interests in share capital

As at 31 December 2014, the Directors were aware of the following substantial interests in the share capital of the Company which represented more than 3% of the issued share capital:

Name	Shares held	% of issued share capital
Ryanair Holdings	159,231,025	29.82%
Minister for Finance of Ireland	134,109,026	25.11%
Etihad Airways	26,648,600	4.99%

As far as the Directors are aware, as of 17 March 2015 these shareholdings remain unchanged.

As far as the Directors are 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 ("IFRSs") as adopted by the European Union. The principal accounting policies, together with the basis of preparation of the accounts are set out in Note 2 to the consolidated financial statements.

Dividends

The Company paid its first dividend of three cent per share on 31 July 2012. On 6 February 2013, the Board announced that it would recommend a dividend payment of four cent per share in respect of the year ended 31 December 2012, subject to shareholder approval at AGM. The Company paid its second dividend, of four cent per share, on 10 May 2013 and its third dividend payment, of four cent per share, on 30 May 2014.

On 24 February 2015, it was announced that, given the Company's improved operating performance in 2014 compared to 2013, the Board had agreed to recommend to shareholders that this increased profitability should be translated into a return of value to shareholders in the form of an increase in the annual dividend from four cent per share (paid in respect of 2013) to a dividend payment of five cent per share in respect of the year ended 31 December 2014.

This proposed dividend of five cent per share will, subject to shareholder approval at AGM, be payable to shareholders regardless of whether the proposed International Consolidated Airlines Group, S.A ("IAG") offer proceeds. In the event that the IAG offer does proceed, the proposed dividend will equate to the cash dividend of five cent per share which is part of the IAG offer.

Principal risks and uncertainties

Information on the principal risks and uncertainties facing the Group are detailed on pages 29 to 33. The Financial Risk Management policies are set out in Note 5 to the consolidated financial statements.

Directors and Secretary

The names of the current Directors appear on pages 34 to 36. The Directors who served during 2014 are listed in the table below.

Director	Status	Independent / Non - Independent
Colm Barrington	Current	Independent
David Begg	Retired	Non-Independent (former ESOT nominee)
Bernard Bot	Current	Non-Independent (Executive)
Montie Brewer	Current	Independent
Laurence Crowley [1]	Current	Independent
Emer Gilvarry	Current	Independent
John Hartnett	Current	Independent
Francis Hackett	Retired	Non-Independent (Minister's nominee)
Colin Hunt	Retired	Non-Independent (Minister's nominee)
Nigel Northridge	Current	Independent
Frank O'Connor	Current	Non-Independent (Minister's nominee)
Andrew Macfarlane	Retired	Non-Independent (Executive)
Christoph Mueller	Retired	Non-Independent (Executive)
Nicola Shaw	Current	Independent
William Slattery	Current	Non-Independent (Minister's nominee)
Nicolás Villen	Current	Independent

[(1)]*Aer Lingus has determined that Mr. Crowley is an independent Director notwithstanding the related party disclosure required under IAS 24, as set out in Note 37. At the time of Mr. Crowley's appointment to the Board of Aer Lingus in 2009, Aer Lingus undertook an assessment of his independence. Aer Lingus determined that the existence of the business relationship with Realex was not such that it affected or impaired Mr. Crowley's independent judgement and he was, therefore, determined to be independent in character and judgement. As part of its assessment, the following factors were considered; the monetary value of the Aer Lingus business to Realex was not significant and was diminishing; Mr. Crowley did not hold any shares in Realex; Mr. Crowley's remuneration as a Realex Non-Executive Director was a modest fixed fee and not, in any way, linked to Realex's performance; Aer Lingus' business relationship with Realex predated Mr. Crowley's appointment as a Non-Executive Director of Realex and the expenditure incurred by Aer Lingus in its business relationship with Realex was immaterial. Mr. Laurence Crowley retired as Chairman and a Non-Executive Director of Realex Payments effective on 25 March 2015.*

Dr. Colin Hunt retired from the Board on 29 January 2014. Mr. Francis Hackett retired from the Board on 7 February 2014. Mr. Andrew Macfarlane retired from the Board on 1 September 2014. Mr. David Begg retired from the Board on 26 January 2015. Mr. Christoph Mueller retired from the Board on 28 February 2015. Mr. John Hartnett, Mr. Nigel Northridge and Mr. Nicolás Villén joined the Board as independent Non-Executive Directors on 1 January 2014. Mr. Frank O'Connor joined the Board as a nominee of the Minister for Transport, Tourism and Sport of Ireland on 14 March 2014 and is considered as non-independent. Ms. Emer Gilvarry joined the Board as an independent Non-Executive Director on 28 March 2014. Mr. Bernard Bot joined the Board as Executive Director on 1 September 2014.

Ms. Emer Gilvarry, Mr. John Hartnett, Mr. Nigel Northridge and Mr, Nicolas Villen were elected as Directors, and Mr. Colm Barrington, Mr. David Begg, Mr. Montie Brewer, Mr. Laurence Crowley, Mr. Andrew Macfarlane, Mr. Christoph Mueller and Ms. Nicola Shaw were re-elected as Directors at the Company's Annual General Meeting (AGM) held on 2 May 2014 .

Mr. Stephen Kavanagh subsequently joined the Board with effect 1 March 2015.

The interests of the Directors in office at 31 December 2014 in the shares of the Group are outlined in Table 2.2 in the Report of the Remuneration Committee on Directors Remuneration on page 69.

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.

During the year ended 31 December 2014, the Company Secretary (Ms. Méabh Gallagher) was granted a conditional award of 30,000 shares under the Long Term Incentive Plan ("LTIP") in respect of the vesting period 1 January 2014 to 31 December 2016. Any vesting of these shares is subject to the achievement of the performance targets outlined in the LTIP and the rules of the LTIP. The Company Secretary held 35,000 conditional share awards under the LTIP in respect of the vesting period 1 January 2013 to 31 December 2015 at 31 December 2013. Other than these awards Ms. Gallagher did not hold any shares as at 31 December 2014.

Directors' Responsibilities Statement

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.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 International Financial Reporting Standards ("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"), as amended by Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012, 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 2013 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 consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

Internal control

The Board has overall responsibility for the Group's system of internal control. Those systems which are maintained by the Group, can only provide reasonable and not absolute assurance against material misstatement or loss. An outline of the Group's Internal Control processes is included in the Corporate Governance Statement on pages 47 to 56.

Issue and purchase of own shares

The Company received authority from shareholders at its last Annual General Meeting on 2 May 2014 to allot relevant securities up to a nominal value of €8,811,661.45 (176,233,229 shares) and purchase up to 10% of its own shares and to reissue such shares purchased by it and not cancelled as treasury shares with a minimum and maximum price at which such treasury shares may be issued set at 95% and 120%, respectively, of the then market price of such shares. The Company did not exercise these authorities during 2014. These authorities are due to expire at the Company's forthcoming Annual General Meeting, and shareholders will be requested to renew them. Details of the proposed renewal of the authorities will be set out in the notice of the meeting.

Share ownership restrictions

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

Political contributions

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

Subsidiary companies

Details of the Group companies are set out in Note 18 to the consolidated financial statements.

Books of account

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

Independent auditors

During 2014, the Companies Acts 1963 to 2013 applied to the Company. The independent auditors, PricewaterhouseCoopers, are prepared, subject to the requirements of the EU legislation to reform the statutory audit market described below, to continue in office in accordance with the provisions of S.160 (2) of the Companies Act, 1963. Section 160(2) of the Companies Act, 1963 provides that the auditor of an Irish company shall be automatically re-appointed at a company's annual general meeting unless the auditor has given notice in writing of his unwillingness to be re-appointed or a resolution has been passed at that meeting appointing someone else or providing expressly that the incumbent auditor shall not be re-appointed. In this respect, Irish company law differs from the requirements that apply in other jurisdictions, for example in the U.K., where auditors of a public company must be re-appointed annually by shareholders at the annual general meeting. The Auditors, PricewaterhouseCoopers, are willing to continue in office. Accordingly, the Directors have not proposed a resolution to re-appoint PricewaterhouseCoopers as such a resolution can have no effect.

PwC has served as Company's external audit firm since 1996 and the audit was last put out to tender in 2003. A new EU regulatory framework was introduced during 2014 requiring mandatory rotation of the external auditors of public interest entities (including listed companies) at least every ten years. EU Member States can extend the maximum audit tenure up to twenty years, provided that a public tender is conducted at least every ten years and this is currently under consideration by the Irish Government. We anticipate the new requirements around tendering will apply to accounting periods commencing on or after 17 June 2016.

Transparency (Directive 2004/109/EC) Regulations 2007

As required by Statutory Instrument 277/2007 Transparency (Directive 2004/109/EC) Regulations 2007 as amended by Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 the following sections of the Company's Annual Report shall be treated as forming part of this report:

- The Chairman's Introduction and Chief Executive's Review on pages 3 to 7;
- Operating, Financial and Quarterly Review on pages 8 to 28 and the Principal Risks and Uncertainties on pages 29 to 33, which include a review of the price risk and cash flow risk, external environment, key strategic aims and performance measures;
- Details of earnings per ordinary share on page 25;
- Details of derivative financial instruments on Note 20 to the consolidated financial statements; and
- Details of key performance indicators relating to employee matters, e.g. change in number of employees, in Note 12 to the consolidated financial statements

Events after the reporting date

Events after the reporting date are disclosed in Note 39 to the financial statements.

Financial risk management

Details regarding financial risk management are set out at Note 5 to the consolidated financial statements.

Corporate Governance Statement– Year ended 31 December 2014

The Report of the Remuneration Committee on Directors' Remuneration is set out on pages 57 to 70. The Directors' Corporate Social Responsibility Statement is set out on pages 40 to 41.

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. The Company applies the UK Corporate Governance Code (September 2012) published by the Financial Reporting Council in the UK and the Irish Corporate Governance Annex published by the Irish Stock Exchange (together the "Codes") in respect of its corporate governance practices.

Under Statutory Instrument 450/2009 European Communities (Directive 2006/46/EC) Regulations 2009 and the Listing Rules of the Irish Stock Exchange (ISE), the Directors are required in this statement to describe how the principles of the Codes have been applied by the Company in the year.

A copy of the UK Corporate Governance Code (September 2012) can be obtained from the Financial Reporting Council's website, www.frc.org.uk . A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website, www.ise.ie.

Statement of compliance

Except as disclosed below, the Directors consider that the Company has complied with all relevant provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex throughout the year.

Rotation of Directors: The Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to three Directors. These rights do not comply with the requirement under the UK Corporate Governance Code that the Nominations Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and the requirement under the UK Corporate Governance Code that all Directors be submitted for re-election annually.

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

Other matters reserved to the Board include treasury policy; internal control, audit and risk management; pension schemes; corporate governance; 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.

Board Size and Membership

The Board currently comprises 12 Directors – two executive Directors (Mr. Stephen Kavanagh, Chief Executive Officer and Mr. Bernard Bot, Chief Financial Officer) and 10 Non-Executive Directors (including the Chairman of the Board). Detailed biographies of current Directors are set out on pages 34 to 36 together with a detailed description of the skills, expertise and experience that each of the Directors brings to the Board.

In circumstances where (a) the Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland) is entitled to nominate three Directors to the Board; and (b) there are two executive Directors; a Board comprising 11 Board members is the minimum size required in order to comply with provision B.1.2 of the UK Corporate Governance Code. As at the date of this report only two Government-nominated directors stand appointed to the Board. The Board considers that the Board currently comprising 12 Directors is cohesive and that between them the Directors bring the breadth and depth of skills, knowledge and experience that are required to lead the Group. The Board also considers that the Directors have sufficient time to discharge their responsibilities.

As can be seen from the biographies of the Directors set out on pages 34 to 36, the Company has access to the skills, expertise and experience it needs for its business. In addition, the Board is committed to a policy of refreshment and renewal in relation to the Board of Directors and, in that regard, there have been a number of changes to its membership in 2014 and early 2015.

Board Independence

During 2014 and as at the date of this report, of the Directors, Mr. Montie Brewer, Mr. Laurence Crowley, Mr. John Hartnett, Mr. Nigel Northridge, Ms. Nicola Shaw, Mr. Nicolas Villen and Ms. Emer Gilvarry were considered to be independent by the Board. During the entirety of 2014, and as at the date of this report, at least half the Board, excluding the Chairman comprised Non-Executive Directors determined by the Board to be independent.

It is the Company's intention to continue to review the composition of the Board to endeavour to continue to comply with this requirement in the UK Corporate Governance Code and to ensure the Directors bring the right range of skills, knowledge and experience to the Board to discharge its obligations to the Company and its shareholders.

External Directorships

The Board believes it is beneficial for Executive Directors to hold Non-Executive directorships with other companies or industry associations provided that such roles do not impact their ongoing obligation and responsibility to the Company. The Board permits executives to accept such positions and to retain any related fees. During 2014 Mr. Mueller served as a non-executive member of the Board of Tourism Ireland and as non-executive Chairman of the Board of An Post. Mr. Bot was at the time of his appointment and remains Chairman of the Supervisory Board of Avio Diepen B.V., a provider of aerospace supply chain management solutions. Further details are set out on page 34.

Chairman

Mr. Colm Barrington was appointed as Chairman of the Board on 3 October 2008. The Chairman was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board and the Chief Executive is responsible for running the business of Aer Lingus Group plc. The division of responsibilities between the Chairman and the Chief Executive is clearly established and has been set out in writing and approved by the Board. Throughout 2014, the roles of Chairman and Chief Executive were independent of each other. On 7 January 2015 he assumed additional executive responsibilities to bridge a period while the Company transitioned to a new Chief Executive Officer. From 1 March 2015, the Company reverted to the conventional model of separate Chairman and Chief Executive Officer.

The Chairman and the Company Secretary work closely together in planning a forward programme of Board meetings and establishing their agendas. During 2014, the Chairman ensured that the Board was supplied in a timely manner with information in a form and of a quality to enable it to discharge its duties via a fully-packaged application for the iPad tablet device. The Chairman encourages openness, debate and challenge at Board meetings. The Chairman holds a number of other directorships and the Board considers that these do not interfere with the discharge of his duties to Aer Lingus.

Senior Independent Director

Mr. Laurence Crowley has been the Senior Independent Director since his appointment on 9 January 2009. The role of the Senior Independent Director is clearly established and has been set out in writing and approved by the Board. The Senior Independent Director 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

The Chief Executive Officer and the Chief Financial Officer each has a service contract with the Company with a notice period of 12 months or less. Mr. Christoph Mueller had, until his departure date, a service contract with the Company with a notice period 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 UK Corporate Governance Code. Subject to the requirement for annual election for all Directors as required by the UK Corporate Governance 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. Recommendation to shareholders for the election of Non-Executive Directors beyond six years will be made only after review by the Board. None of the Non-Executive Directors are a party to any service contract with the Company that provides for benefits upon termination.

The Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland in his capacity as shareholder) has specific rights under the Company's Articles of Association in relation to the nomination and rotation of up to three Directors. These rights may not comply with the requirements in the UK Corporate Governance Code (September 2012) that the Nominations Committee lead the process for Board appointments and make recommendations to the Board regarding Board appointments and that all Directors be submitted for re-election at regular intervals. The Minister for Transport, Tourism and Sport of Ireland is entitled to nominate up to three Directors for appointment. The number of Directors eligible to be nominated by the Minister for Transport, Tourism and Sport of Ireland is dependent on the proportion of the total issued ordinary share capital held by the Minister for Finance. From 12 July 2013, the date of appointment of Mr. William Slattery, to 29 January 2014, the Minister for Transport, Tourism and Sport of Ireland nominated his full entitlement of three Directors (Mr. Francis Hackett, Dr. Colin Hunt and Mr. William Slattery). Dr. Colin Hunt retired on 29 January 2014 and Mr. Francis Hackett retired on 7 February 2014. Following nomination by the Minister for Transport, Tourism and Sport of Ireland, Mr. Frank O'Connor was appointed to the Board with effect from 14 March 2014. From that date onwards, the Minister for Transport, Tourism and Sport of Ireland has one unfilled vacancy at his disposal.

Retirement and re-election

Under the Articles of Association, one-third of the Directors who are subject to retirement by rotation retire from office at each AGM. However in compliance with the UK Corporate Governance Code, all Directors, with the exception of those nominated by the Minister for Transport, Tourism and Sport of Ireland (acting through the Minister for Finance of Ireland), will retire at the forthcoming AGM and following review are being recommended for re-election. Directors nominated by the Minister for Transport, Tourism and Sport of Ireland are not subject to these provisions in relation to retirement.

It is the Board's policy to regularly review the chairmanship of its committees. Appointments to committees are for a period of up to three years, which may be extended for a further three-year period provided the Director is re-elected by shareholders and remains independent, or in the case of some committees, a majority of the Directors on the committee remain independent. A Director being a member of the same Board committee for more than six years may be permitted only after review by the Board. Recommendations to shareholders for the re-election of Non-Executive Directors for terms beyond six years will be made only after review by the Board.

Induction and development

New Directors are comprehensively briefed on the Company and its operations, including the provision of extensive induction materials on appointment. An induction process is clearly established and has been set out in writing and approved by Board. This process was revised and updated during 2013 and was kept under review in 2014. In addition, to aid their ongoing development and understanding of the business, Directors engage with the executive and senior management teams on a continuing basis.

A procedure is in place 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 her advice and services. The Company Secretary ensures that the Board members receive appropriate training as necessary. The Company Secretary is responsible for advising the Board on all corporate governance matters.

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

Meetings

The Board has a fixed schedule of meetings each year and may meet more frequently as required. There were seven scheduled Board meetings in 2014 and a number of decisions were also taken by written resolution in lieu of a meeting. In addition there were five conference call meetings which were not pre-scheduled and were convened at short notice. Therefore, there were a total of 12 Board Meetings held in 2014. Details of Directors' attendance at these meetings is outlined in the table on page 54. In line with best practice guidelines, all Directors attended in excess of 75% of the pre-scheduled Board meetings in 2014 which they were entitled to attend.

For regular Board meetings, the agenda will usually comprise of reports from the Chief Executive Officer, 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 each scheduled meeting 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 of how well they are functioning as an effective board applying best principles of governance, whether each Director continues to contribute effectively and demonstrate commitment to the role and to identify areas for development. The Chairman's performance is evaluated by the Senior Independent Director and the Non-Executive Directors at least once a year. In addition to being evaluated by the Chairman, the Directors are also obliged to assess their own performance.

The performance evaluation of the Board in respect of the financial year ending 31 December 2014 was facilitated internally. A detailed questionnaire was prepared for answer online by each person who was a serving Director at year end. Following the completion of the questionnaire, a report was prepared. The evaluation covered Board processes, composition including balance of skills, experience, diversity, independence and knowledge of the Company, how the Board worked together as a unit and other factors relevant to its effectiveness, strategy, risk management and evaluations of the full Board, Board Committees and individual Board members. The assessor prepared a report on the results of the questionnaire and presented it to the Chairman in respect of the Directors and to the Senior Independent Director in respect of the Chairman and the report was subsequently circulated for review and discussion by the Board. The performance evaluation of the Board was externally facilitated for the years ended 2011 and 2012. The board evaluation in respect of the financial year ending 31 December 2013 conducted in 2014 was facilitated internally.

Remuneration

Details of Directors' remuneration is set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 57 to 70.

Share ownership and dealing

Details of the shares held by Directors are set out in Table 2.2 on page 69. 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 Nominations Committee, the Safety Committee and the Risk Committee. Ad-hoc committees are established from time to time to deal with specific matters. Terms of reference for each of the permanent committees have been documented and approved by the Board. Copies are available on request from the Company Secretary.

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

Audit Committee

The Board has established an Audit Committee consisting of at least three Non-Executive Directors considered by the Board to be independent. During 2014 the Audit Committee consisted of Ms. Nicola Shaw (Chair), Mr. Laurence Crowley, Mr. Nicolas Villen and Mr. Montie Brewer. Mr. Villen was appointed to the Audit Committee in January 2014. Mr. Crowley, a Chartered Accountant, and Mr. Villen, an experienced former CFO and CEO, are the Audit Committee's financial experts. In addition, all other members of the Audit Committee had recent and relevant financial experience. The Audit Committee met 11 times during the year. Two of its meetings were not pre-scheduled and were convened at short notice. Attendance at meetings held is set out in the table on page 54.

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

- to monitor the statutory audit of the annual and consolidated financial statements and the financial reporting process;
- 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;
- to review and monitor the effectiveness of the Company's internal financial controls and its systems of internal controls, internal audit and risk management systems (the review of risk management systems has been delegated to the Risk Committee to complete. The Risk Committee reports to the Audit Committee and the Board in this regard);
- to provide advice to the Board on whether the Company's annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- to monitor and review the results of the Company's internal audit function and the annual internal audit plan;
- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors, to approve the terms of engagement of the external auditors and to make recommendations to the Board regarding tendering the external audit contract from time to time;
- to monitor and review the external auditors' independence and objectivity (in particular the provision of additional services to the audited entity) and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements;
- 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;
- 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;
- to draw to the attention of the Board Remuneration Committee any internal control or accounting issues that it believes should be taken into account when determining remuneration; and
- to review the Company's good faith reporting policy.

The Audit Committee report for year ended 31 December 2014 is set out in a letter from the chairman of the Audit Committee on pages 71 to 75.

Remuneration Committee
The Remuneration Committee of the Board during 2014 comprised initially three, then increasing to four, independent Non-Executive Directors. During 2014 the Committee members were Mr. Nigel Northridge (Chair), Mr. Colm Barrington, Ms. Emer Gilvarry and Ms. Nicola Shaw. Ms. Gilvarry joined the Remuneration Committee in July 2014. Mr. Colm Barrington was determined by the Board to be independent on his appointment to the Board and therefore his membership of the Remuneration Committee is in compliance with the requirements set out in the UK Corporate Governance Code.

The Remuneration Committee has been delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments. It also determines the conditions of employment of the senior management team. It met seven times during the year and also took a number of decisions by written resolution in lieu of a meeting and one of its meetings, a joint meeting with the Nominations Committee, was not pre-scheduled and was convened at short notice. Attendance at meetings held is set out in the table on page 54.

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

- to determine and agree with the Board the framework or board policy for the remuneration of the Chief Executive, the Chairman of the Board, the executive Directors, the Company Secretary, each member of the executive management team, and such other senior management members as it is designated to consider;
- to set remuneration policy so as to ensure that senior management are provided with appropriate incentives (including long term incentives) to encourage performance and are rewarded for their individual contributions to the success of the Company in a fair and responsible manner;
- 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
- to monitor and approve the total remuneration package of the Chairman, each executive Director and each member of the executive management team, within the terms of the agreed policy.

The Remuneration Report for year ended 31 December 2014 is set out on pages 57 to 70. At the Annual General Meeting held on 2 May 2014, shareholders were asked to receive and consider the Remuneration Report for year ended 31 December 2013. Shareholders had similarly been asked to vote on the Remuneration Report at each AGM since 2010. These resolutions are often referred to as a 'Say on Pay' resolution. The resolutions were passed by shareholders at each of the AGMs. While it was not mandatory to put such a resolution to shareholders, its inclusion reflected the Group's commitment to continuing to enhance its corporate governance practices. A 'Say on Pay' resolution regarding the Remuneration Report for year ended 31 December 2014 will be also out to shareholders at the forthcoming AGM. The Company is not subject to the United Kingdom's Enterprise and Regulatory Reform Act 2013 requiring a quoted company's remuneration policy to be approved by an ordinary resolution of its shareholders every three years.

The Remuneration Committee engages and considers advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by, and report directly to, the Remuneration Committee. Potential conflicts of interest are considered when remuneration consultants are selected. Any advice from external consultants is used as a guide, and is not a substitute for thorough consideration of all the issues by the Remuneration Committee. During 2014, the Remuneration Committee formally reviewed its external consultants. As a result of this process the Committee appointed Deloitte LLP as independent committee advisors in July 2014. In 2014 Deloitte LLP advised the Committee on remuneration strategy and structure. The Remuneration Committee also employed the services of Towers Watson to provide information and advice on market benchmarking. Deloitte LLP and Towers Watson were both engaged by, and reported directly to, the Remuneration Committee in respect of these services. In addition to the services it provides to the Remuneration Committee, Towers Watson is engaged to provide communications advice in respect of the IASS solution. Apart from the provision of these services, Towers Watson does not provide other services to the Company. In addition to the services it provides to the Remuneration Committee, Deloitte is also engaged to provide tax advice, payroll services and corporate consultancy. Apart from the provision of these services, Deloitte does not provide other services to the Company.

Nominations Committee

The Nominations Committee of the Board comprised four Non-Executive Directors during 2014, a majority of whom were independent Non-Executive Directors. During 2014 the Nominations Committee consisted of Mr. Laurence Crowley (Chairman), Mr. Colm Barrington, Mr. John Hartnett and Mr. Nigel Northridge. Dr. Colin Hunt was also a member of the Nominations Committee until his retirement from the Board on 29 January 2014. Mr. Hartnett and Mr. Northridge each joined the Nominations Committee in January 2014. The role of the Nominations Committee is to lead the process for considering Board appointments. The Nominations Committee may not be chaired by the Chairman of the Board on any matter concerning the succession to the chairmanship of the Board. The Nominations Committee met nine times during the year and also took a number of decisions by written resolution in lieu of a meeting. Two of its meetings were not pre-scheduled and were convened at short notice, one of which was a joint meeting with the Remuneration Committee. Attendance at the meetings held is set out in the table on page 54.

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

- to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- to give full consideration to the leadership needs of the organization, succession planning for Directors and senior management, taking into account the challenges and opportunities facing the Company; and
- 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 and have regard to the issue of diversity, including gender diversity.

The following is a summary of the principal work undertaken by the Nominations Committee during 2014:

- the Nominations Committee reviewed the Committee structure of the Board;
- the Nominations Committee recommended Non-Executive Director candidates for appointment by the Board;
- the Nominations Committee engaged an external search consultancy to identify potential candidates for the position of Chief People and Change Officer and recommended a candidate for appointment to this position;
- the Nominations Committee engaged an external search consultancy to identify potential candidates for the position of Chief Financial Officer and Executive Director and recommended a candidate for appointment to this position by the Board;
- the Nominations Committee, following delegation of authority from and approval in principle by the Board, approved the appointment of Mr. Colm Barrington as Executive Chairman with effect from 7 January 2015 to bridge a period while the Company transitioned to a new Chief Executive Officer
- the Nominations Committee engaged an external search consultancy to identify potential candidates for the position of Chief Executive Officer and Executive Director and in February 2015 recommended a candidate for appointment to this position by the Board; and
- the Nominations Committee provided reports to the Board regarding the work of the Committee.

During 2014 the Nominations Committee engaged in a process of recruitment of both Executive and Non-Executive Director candidates for appointment by the Board. In agreeing criteria for new Non-Executive Director appointments, the Nominations Committee considered differences in skills, experience, background, nationality, geographical spread (by residency) and other qualities, including gender, in determining the optimum composition of the Board with the aim of achieving an appropriate balance of diversity in order to complement the existing range and balance of skills, knowledge and experience on the Board. These criteria were communicated to a professional search consultant (Barry Herriot). The consultant then presented a list of potential candidates of diverse backgrounds for consideration by the Nominations Committee. In determining suitable candidates for recommendation to the Board, the Nominations Committee considered candidates on merit against objective criteria having due regard for the benefits of diversity on the Board and the need for an appropriately sized Board. During 2014 the Nominations Committee also engaged in a process of recruitment of candidates for the positions of Chief Executive Officer and Chief Financial Officer and for the position of Chief People and Change Officer using external professional search firms Egon Zehnder and Korn Ferry. None of the external search consultants engaged by the Nominations Committee during 2014 has any other connection with the Company

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 regularly, and also ensuring that appropriate procedures are in place so that any crisis or accident can be properly managed. During 2014 the Safety Committee was comprised of Mr. Nicolas Villen (Chairman), Mr. Colm Barrington, Ms. Emer Gilvarry, Mr. David Begg and Mr. Christoph Mueller. Mr. Francis Hackett was also a member (and Chairman) of the Safety Committee until his retirement from the Board on 7 February 2014. Mr. Villen joined the Safety Committee in January 2014 (and was nominated to the role of Chairman, replacing Mr. Hackett) and Ms. Gilvarry joined the Safety Committee in July 2014. Mr. Stephen Kavanagh was appointed to the Safety Committee with effect from 1 March 2015. The Safety Committee met four times during the year. Attendance at meetings held is set out in the table on page 54.

The following is a summary of the principal work undertaken by the Safety Committee during 2014:

- at each of its meetings in 2014, the Committee reviewed reports from management on air safety, health and safety, quality and security;
- the Safety Committee monitored and tracked the implementation of required actions arising from the reports from management on air safety, health and safety, quality and security; and
- the Safety Committee provided reports to the Board regarding the work of the Committee.

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 jointly conducts with the Audit Committee, an annual review of Aer Lingus' system of internal financial control and risk management systems and reports to the Board in this regard.

During 2014 the Risk Committee consisted of Mr. William Slattery (Chairman), Mr. David Begg, Mr. Montie Brewer, and Mr. Frank O'Connor. Dr. Colin Hunt was also a member (and Chairman) of the Risk Committee until his retirement from the Board on 29 January 2014, following which Mr. Slattery assumed the chairmanship of the Risk Committee. The Risk Committee met four times during the year. Mr. O'Connor joined the Risk Committee in July 2014. Ms. Emer Gilvarry was appointed to the Risk Committee in February 2015 following Mr. Begg's retirement from the Board. Attendance at meetings held is set out in the table on page 54.

The following is a summary of the principal work undertaken by the Risk Committee during 2014:

- the Risk Committee jointly conducted (with the Audit Committee), an annual review of Aer Lingus' system of internal financial control and risk management systems and reported to the Board in this regard;
- the Risk Committee reviewed and approved the Company's Corporate Risk Assessment Process for 2014 and reported to the Audit Committee and Board in this regard;
- throughout 2014, the Risk Committee monitored key risks facing the Group and considered detailed reports from management in relation to these risks; and
- the Risk Committee provided reports to the Board regarding the work of the Committee.

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, sell-side and buy-side analysts on key business issues through meetings with the CEO, the CFO, executive management and senior management;
- results webcasts related to the issue of the preliminary result and the half yearly report; conference calls related to the issue of the Q1 and Q3 interim management statements;
- investor roadshows and conference calls;
- issuance of monthly traffic statistics;
- issuance of the Annual Report and the half yearly report;
- issuance of preliminary annual results announcements and Q1 and Q3 interim management statements;
- investor relations section on the Group's website, including full text of financial results, press releases, results presentations, traffic statistics, roadshow/ analyst presentations, analyst coverage, dividend information and calendar of events;
- AGM section on the Group's website including the Notice of AGM, the statement of AGM procedures, the Articles of Association, form of proxy, financial statements, AGM related announcements, results of AGM and historic results. The statement of AGM procedures outlines the manner in which shareholders can table agenda items, resolutions and submit questions in advance of the meeting;
- at the AGM, individual shareholders are able to question the Chairman and the Board;
- EGM section on the Group's website in relation to the EGM in relation to the IASS solution held on 10 December 2014
- the Company also responds throughout the year to numerous queries from shareholders on a wide range of issues.

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

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

Description of internal control and risk management systems
In addition to the description below, the following sections of the Company's Annual Report shall be treated as forming part of the Board's description of the main features of the Group's internal control and risk management systems in relation to the process for preparing the Group's consolidated accounts:
- the description of the principal risks and uncertainties which the Group faces on pages 29 to 33;
- details regarding financial risk management are set out at Note 5 to the consolidated financial statements;
- the description of how the Audit Committee discharged its obligations throughout the year on pages 49 and 50; and
- the description of the Risk Committee above.

The Board acknowledges that it is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness. Such systems are 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 (as applicable to the 2012 version of the UK Corporate Governance Code, 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, in the areas of financial, operational and compliance controls and risk management systems. The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and financial statements and its outputs inform the preparation of the Group's consolidated accounts. The process involves the Board considering:

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

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

In accordance with the process outlined above, the Board confirms that it has conducted an annual review of the effectiveness of the Group's risk management and the internal control systems in operation and that it has approved the reporting lines to ensure the ongoing effectiveness of the internal controls and reporting structures. This review included a review of all material controls, including financial, operational and compliance controls and risk management systems. In its review the Board considered the changes since the last annual assessment in the nature and extent of the risks faced by the Group; the scope and quality of management's ongoing monitoring of risks; the communication of the results of the monitoring to the Board and Board Committees; the incidence of control failings or weaknesses that have been identified; and the effectiveness of the Group's financial reporting process. The description of the principal risks and uncertainties that the Group faces are set out on pages 29 to 33. The Board evaluates these risks as required and thereby determines its and the Group's risk tolerance in the implementation of strategy.

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

- clear governance structures; clearly defined organisation structures and lines of authority;
- employment of competent persons;
- a strong and independent Board that meets regularly during the year;
- corporate policies for financial reporting, treasury and financial risk management, information technology and security, authorization and expenditure, vendor selection, data protection, project appraisal and corporate governance;
- defined matters reserved to the Board and Board of Directors approval of all major strategic decisions;
- defined Board Sub-Committee Terms of Reference;
- clearly defined process and information system for controlling capital expenditure including use of appropriate authorisation levels;
- long term business plan;
- detailed annual budget process, with budget reviewed and approved by Board;
- monthly monitoring of historic and forecast performance against budget which is reported to the Board;
- comprehensive system of internal financial reporting which includes preparation of detailed financial statements and key performance indicators on a monthly basis and the preparation of the year end consolidated financial statements;
- an internal audit function which reviews and reports on key business processes and controls;
- corporate compliance monitoring;
- an audit committee which approves audit plans and deals with significant control issues raised by internal or external audit;
- regular communication with external auditors;
- regular Executive Committee meetings (and Quarterly Executive Risk Committee meetings);
- defined expenditure and authorization limits;
- fully integrated purchasing process with online purchasing portal and electronic invoice authorisation workflows;
- defined data protection plan and framework for data protection policy; and
- segregation of duties.

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

Going concern
After making enquiries, considering the net cash available at the reporting date and considering the projections in the Group's 2015 budget and five year plan, 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 pages 45 to 46 with the responsibilities of the Company's Independent Auditors outlined on page 80.

Table 1.1 Attendance at Board and Board Committee meetings in the year ended 31 December 2014
The attendance statistics are outlined below 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 at which that Director was entitled to attend.

Name	Position	Board	Committees				
			Audit	Remuneration	Nominations	Safety	Risk
Colm Barrington	Chairman	12/12		7/7	9/9	4/4	
David Begg(1)	Director	9/12				3/4	3/4
Montie Brewer	Director	12/12	9/11				4/4
Bernard Bot(2)	Chief Financial Officer (from 1 September 2014)	5/5					
Laurence Crowley	Director	11/12	10/11		9/9		
Francis Hackett(3)	Director	1/1					
John Hartnett(4)	Director	12/12			8/8		
Colin Hunt(5)	Director	1/1			1/1		
Emer Gilvarry(6)	Director	8/9		3/3		2/2	
Andrew Macfarlane(7)	Chief Financial Officer (to 1 September 2014)	7/7					
Christoph Mueller	Chief Executive Officer	12/12				4/4	
Nigel Northridge(8)	Director	12/12		7/7	8/8		
Frank O'Connor(9)	Director	10/10					2/2
Nicola Shaw	Director	12/12	11/11	7/7			
William Slattery	Director	11/12					4/4
Nicolas Villen	Director	12/12	11/11			4/4	

(1)Mr. David Begg absented himself from all deliberations of the Board regarding the IASS solution as, during 2014, in addition to his position as a Director, Mr. Begg held the position of General Secretary of ICTU, which is a party to the memorandum of understanding with Aer Lingus Limited in respect of the IASS solution. Mr. David Begg did not therefore participate in any Board meeting primarily convened to consider the IASS solution and related matters.

(2) Mr. Bernard Bot was appointed to the Board from 1 September 2014 and hence was available to attend a maximum of two scheduled Board meetings (and three conference call meetings of the Board).

(3) Mr. Francis Hackett retired from the Board on 7 February 2014 and hence was available to attend a maximum of one scheduled Board meeting.

(4) Mr. John Harnett was appointed to the Nominations Committee for the first time on 23 January 2014 and hence was available to attend a maximum of eight scheduled Nominations Committee meetings.

(5) Dr. Colin Hunt retired from the Board on 29 January 2014 and hence was available to attend a maximum of one scheduled Board meeting and 1 scheduled Nominations Committee meeting.

(6) Ms. Gilvarry was appointed to the Board in March 2014 and to the Remuneration and Safety Committees for the first time in July 2014 and hence was available to attend a maximum of four scheduled Board meetings (and five conference call meetings of the Board), a maximum of three scheduled Remuneration Committee meetings and a maximum of two scheduled Safety Committee meetings.

(7) Mr. Andrew Macfarlane retired from the Board on 1 September 2014 and hence was available to attend a maximum of five scheduled Board meetings (and two conference call meetings of the Board).

(8) Mr. Nigel Northridge was appointed to the Nominations Committee for the first time on 23 January 2014 and hence was available to attend a maximum of eight Nominations Committee meetings.

(9) Mr. Frank O'Connor was appointed to the Board in March 2014 and to the Risk Committee for the first time in July 2014 and hence was available to attend a maximum of five scheduled Board meetings (and five conference call meetings of the Board) and a maximum of two scheduled Risk Committee meetings.

General meetings
The Company's Annual General Meeting (AGM), which is held in Ireland, affords individual shareholders the opportunity to question the Chairman and the Board. It is the Company's policy for all Directors to attend the AGM. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 21 working days before the meeting. At the meeting, resolutions are ordinarily voted on by means of a show of hands. The votes of shareholders present at the meeting are added to the proxy votes received and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice.

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

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

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

For the purpose of Regulation 21(2)(c), (d), (f), (h) and (i) of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings on page 42 (Substantial Interests in Share Capital), page 48 (Terms of Appointment), page 48 (Retirement and Re-election), page 59 to 70 (Non-Executive Directors, Executive Directors and Service Contracts), page 45 (Issue and Purchase of own shares and Share Ownership Restrictions), in Note 32 to the consolidated financial statements (Called-Up Share Capital) and in Note 33 to the consolidated financial statements (Share Premium, Capital Conversion Reserve Fund and Other Reserves) are deemed to be incorporated in this Report. The Company's rules in respect of the appointment and replacement of Directors of the Company and amendment of the Company's Articles of Association are set out in the Company's Memorandum and Articles of Association and the relevant Articles of the Company's Memorandum and Articles of Association are hereby incorporated by reference in this Corporate Governance Statement.

For the purpose of Regulation 21 of European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 (SI 255/2006), the information given under the following headings in Note 12 to the consolidated financial statements (Employee Benefits), in Note 34 to the consolidated financial statements (Employee Participation), in Notes 26 and 27 to the consolidated financial statements (Defined Contribution Pension Schemes and Post Employment Benefits) and in Note 33 to the consolidated financial statements (Share Premium, Capital Conversion Reserve Fund and Other Reserves - Long Term Incentive Plan) are deemed to be incorporated in this Report together with the information given in the Corporate Governance Statement above.

The Chief Executive Officer has no entitlement in regard to a change in control if, following such change in control, he is offered the position of Chief Executive of the Company on remuneration not less beneficial to him than that provided for under his contract of service with the Company. Subject to the foregoing, the Chief Executive Officer is entitled, having obtained the prior consent of the Remuneration Committee, to terminate his employment by giving not less than 30 days prior notice at any time within six months of a change of control if the Chief Executive has reasonable grounds to contend that such change of control has resulted or will result in a diminution of his role, powers, duties or functions in relation to the Company or if, as a consequence of the change in control, a contract of employment which is less beneficial to the Chief Executive is offered to the Chief Executive which he declines to agree. Upon such termination the Company is obliged to pay the Chief Executive (in extinction of any and all claims which he may have in respect of the termination of his employment): (i) all amounts of basic salary due to him through to the date on which he ceases to be employed; and (ii) a cash bonus amount set by the Remuneration Committee having regard to the extent to which the Remuneration Committee is reasonably satisfied that the Chief Executive Officer has achieved the financial and other goals agreed between the Remuneration Committee and the Chief Executive Officer and prorated for the number of months in such financial year during which the Chief Executive Officer was employed by the Company; (iii) long term incentive plan awards set by the Remuneration Committee having regard to the extent to which the Remuneration Committee is reasonably satisfied that the Executive achieved the financial and other goals agreed between the Remuneration Committee and the Executive and prorated for the number of months in such financial year during which the Executive was employed by the Company; (iv) an amount equal to one year's base salary, target level cash bonus and target level long term incentive plan award; and (v) the immediate vesting of all long term incentive plan awards that have not yet vested.

The Chief Financial Officer is entitled, having obtained the prior consent of the Remuneration Committee, to terminate his employment by giving not less than 30 days prior notice at any time within six months of a change of control if the Chief Financial Officer has reasonable grounds to contend that such change of control has resulted or will result in a diminution of his powers, duties or functions in relation to the Company or if, as a consequence of the change in control, a contract of employment which is less beneficial to the Chief Financial Officer is offered to the Chief Financial Officer which he declines to agree and upon such termination the Company is obliged to pay the Chief Financial Officer (in extinction of any and all claims which he may have in respect of the termination of his employment) an amount equal to one year's basic salary for the financial year of the Company immediately preceding such termination. In the absence of the Remuneration Committee giving its consent, the Company is not obliged to make the foregoing payment to the Chief Financial Officer in the circumstances described.

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

From time to time, the Company has entered into codeshare agreements with other airlines as well as aircraft finance leases and exchange and interest rate hedging contracts with financial institutions. These agreements contain provisions which allow for their early termination in the event of a change of control.

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and functions are listed on pages 34 to 36 confirms that, to the best of each person's knowledge and belief:

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

On behalf of the Board of Directors

COLM BARRINGTON	STEPHEN KAVANAGH
Chairman	Director

27 March 2015

Report of the Remuneration Committee on Directors' Remuneration

Letter from the Continuing Members of the Remuneration Committee

Dear shareholders,

As the Chairman of the Remuneration Committee (the "Committee") I am pleased to present our Directors' Remuneration Report for 2014. This report details the 2014 remuneration outcomes and provides a summary of how the Committee intends to operate executive remuneration in 2015. The format of this report has been revised this year and the Committee believes that it provides a clear summary of executive remuneration at Aer Lingus.

Introduction
2014 was another successful year for Aer Lingus. The Group delivered significant growth in long haul and resilient short haul operations. Profitability improved, total network passengers surpassed 11 million for the first time, and the Group successfully expanded transatlantic operations. During the year we resolved the significant and long running issues arising from the funding deficit in the Irish Airlines (General Employees) Superannuation Scheme (IASS). This provided a level of clarity and certainty to all stakeholders on future pension arrangements for IASS members as well as a measure of cost stability for Aer Lingus and its shareholders.

December 2014 also saw the first non-binding and conditional approaches from IAG. IAG has since submitted a third proposal which the Board has indicated is at a level at which it would be willing to recommend, subject to being satisfied with the manner in which IAG proposes to address the interests of relevant parties. In the context of the Company being in an offer period, the 2012 long term incentive plan award did not vest following publication of the 2014 Preliminary Results on 24 February 2015, as would be expected in the ordinary course. In other respects and as far as possible the Committee will continue to operate in accordance with its remit.

Management changes
During 2014 there were a number of changes in the management team at Aer Lingus. Mr. Andrew Macfarlane stepped down as Chief Financial Officer on 1 September, following the initial announcement in March 2014. Mr. Macfarlane did not receive payment in lieu of notice, did not participate in the 2014 Performance Related Pay Scheme or the 2014 LTIP awards, and his outstanding 2012 and 2013 LTIP awards were forfeited upon his retirement from the Board.

The Board appointed Mr. Bernard Bot as Chief Financial Officer Designate on 18 July 2014 and he became Chief Financial Officer on 1 September 2014 following Andrew's departure. Details of Mr. Bot's remuneration package are set out in the Remuneration Report below.

In July 2014 it was announced that Mr. Christoph Mueller would step down as CEO and Executive Director in May 2015, by agreement with Aer Lingus. This date was subsequently brought forward to 28 February 2015. Mr. Mueller did not receive payment in lieu of notice. Given the agreed circumstances of his departure and the success of his tenure as CEO, the Committee decided that it was appropriate that Mr. Mueller's outstanding LTIP share awards (granted in 2012, 2013 and 2014) continue in being, subject to the performance conditions being satisfied within the performance period, at the vesting level determined by the Committee, and in the case of the 2013 and 2014 share awards, reduced on a pro-rated basis to reflect the proportion of the relevant performance period that had elapsed on his departure date. Full details of Mr. Mueller's leaving arrangements are set out in the Remuneration Report below (page 62).

In February 2015 it was announced that Mr. Stephen Kavanagh would be appointed as Chief Executive Officer and Executive Director with effect from 1 March 2015. Mr. Kavanagh's salary was set by the Committee at €450,000 per annum and his pension contribution is 25% of salary. Mr. Kavanagh's Performance Related Pay opportunity is 125% of salary and his LTIP opportunity is 150% of salary.

As an interim measure it was announced on 7 January 2015 that the Chairman, Mr. Colm Barrington, would assume additional executive responsibilities for strategic matters until a new Chief Executive was appointed. Given this significant increase in Mr. Barrington's responsibilities, the Committee agreed that he would receive an additional fee of €125,000 per annum in addition to his normal Chairman fee of €126,000 per annum, pro-rated for the period from 7 January to 28 February 2015 during which he undertook the additional executive responsibilities. Payment of this additional fee ceased from 1 March 2015 upon the appointment of Stephen Kavanagh as CEO.

2014 Performance Related Pay Scheme
As mentioned above, the financial performance of Aer Lingus in 2014 was strong, delivering operating profit of €72 million, a growth of 17.8% over 2013, which was above the maximum performance target for the annual Performance Related Pay Scheme. The punctuality (departures) target and the employee engagement target were not met, but the punctuality (arrivals) target based on relative performance was met. Overall, this resulted in an overall achievement of 73.4% of the maximum corporate performance element of the plan. The Committee is satisfied that this level of award is warranted based on the Group's performance in the year and, following an assessment of individual performance, determined that Mr. Mueller would receive an award of 110% of salary and that Mr. Bot would receive an award of 31% of salary (based on a pro-rated service of 33%). Further details of performance are set out in the Remuneration Report below (pages 63).

2012 Long-term Incentive Plan awards
Following the end of the year the Committee assessed the performance conditions of the 2012 LTIP awards for the performance period 1 January 2012 to 31 December 2014. These awards were based on relative TSR against both a group of European Airlines and the ISEQ General Index. The awards were also subject to an EBITDAR underpin. Based on Group performance this underpin was met and, given Aer Lingus' outstanding performance versus its peers, the relative TSR performance outcome was 95% of the maximum award. In assessing TSR performance the Committee reviewed whether the IAG bid in December 2014 influenced the TSR outcome and concluded that it did not. As such a vesting level of 95% in respect of the 2012 share award has been confirmed by the Committee. The 2012 LTIP did not vest following the 2014 Preliminary Result, as would be expected in the ordinary course, due to the Company being in an offer period. The 2012 LTIP award will vest in due course. During an offer period, the Company is required to engage with the Takeover Panel prior to vesting. For the avoidance of doubt the 2012 award will vest regardless of whether or not the proposed IAG offer proceeds.

Agenda for 2015
Following the 2014 AGM the Committee intended to undertake a review of the Group's Long-Term Incentive Plan. However, following the changes in Group management described above, the Committee decided not to make changes to this aspect of the remuneration framework during a year of transition.

2015 will be a year of continued change for Aer Lingus. In that context the Committee does not intend to undertake the proposed review of the LTIP during 2015 although it intends to revisit the plan as a whole prior to its expiry in 2017 and will consult with our largest shareholders at the time.

Yours faithfully,

NIGEL NORTHRIDGE
Chairman
Remuneration Committee

27 March 2015

Report of the Remuneration Committee on Directors' Remuneration

Disclosures regarding Directors' remuneration have been drawn up on an individual Director basis in accordance with the requirements of both the 2012 UK Corporate Governance Code and the Irish Stock Exchange.

Unaudited Information

Remuneration Policy
The objective of the Company's remuneration policy is to ensure that Executive Directors and senior managers are provided with appropriate incentives which reward them for delivering shareholder value and contributing to the long term success of the Company in a fair and responsible manner. The Committee believes in the principle of pay for performance and seeks to avoid reward for lack of performance or failure.

The purpose of our remuneration arrangements is to enhance the focus of Executive Directors and senior managers on the achievement of the Company's strategy and to align their interests with those of shareholders.

The Committee is committed to engaging with shareholders on remuneration issues to gather feedback on its remuneration policy and related governance matters. In particular, the Committee will discuss any significant changes to the remuneration policy with shareholders prior to implementation.

The table below summarises the policy in respect of each component of remuneration for Executive Directors in 2015:

Element	Operation	Framework used to assess performance	Maximum opportunity
Salary	Base salaries are reviewed annually, taking into account personal performance, Company performance, changes in responsibilities and market practice. Salaries are typically set after considering the salary levels of companies of a similar size and complexity, the responsibilities of each role, individual performance and an individual's experience.	The Committee considers salary levels taking into account Company and individual performance and what level of salary will be sufficient to attract and retain Executive Directors of required quality to run the business without paying more than is necessary for this purpose.	Salaries are set taking into account the factors outlined and there is no maximum opportunity
Benefits	Executive Directors may receive benefits including car allowance, mobile telephone, telephone and broadband connection, health insurance, death in service, and income protection benefits. Directors and dependent members of their families can benefit from concessionary travel on Aer Lingus services. Additional benefits may be provided in specific circumstances where an Executive Director is required to relocate in order fulfil their role, reasonable relocation benefits may be provided.	Not applicable	Not applicable
Pension	Executive Directors are invited to participate in a defined contribution pension scheme.	Not applicable	The current pension contributions are 25% of basic salary for Executive Directors

Performance Related Pay Scheme	The Company operates this scheme to incentivise and recognise execution of the business strategy on an annual basis. Executive Directors, other executives and senior management participate in this scheme. All bonus payments are at the discretion of the Committee. Bonus payments are in cash.	The general pool for annual bonus awards for all participants is calculated based 70% on operating profit, and 30% on non-financial targets related to customers and people. Individual awards for Executive Directors are based 75% on corporate performance as described above and 25% on individual targets.	125% of salary for the Chief Executive Officer 125% of salary for the Chief Financial Officer.
Long term Incentive Plan ("LTIP") *Plan approved by shareholders in 2007*	The Company operates the LTIP to incentivise the delivery of the business strategy and returns to shareholders over the longer term. Awards are made on an annual basis at the discretion of the Committee.	Awards vest based on relative total shareholder return ("TSR") performance, measured 50% against a comparator group of European airlines and 50% against the companies in the ISEQ General Index. Awards are also subject to an EBITDAR underpin. Performance is measured over a three year period	Maximum award of 150% of salary for the Chief Executive Officer Maximum award of 125% of salary for the Chief Financial Officer Under the rules of the scheme the maximum number of shares that can vest is 125% of the initial award. However, the Committee determined that for awards since 2012, the maximum number of shares that will be capable of vesting is 100% of the awards.

Remuneration and Company strategy
Remuneration at Aer Lingus is aligned with the interests of shareholders and substantially linked to performance. The objective of this incentive structure is to reinforce both short-term and long-term behaviour that drives alignment with shareholder interests and delivers value for shareholders.

The incentive structure is also designed to be aligned with the Company's policy with regard to risk. In this regard the Audit Committee will draw the attention of the Remuneration Committee to any internal control or accounting issues that the Audit Committee believes should be taken into account when determining remuneration.

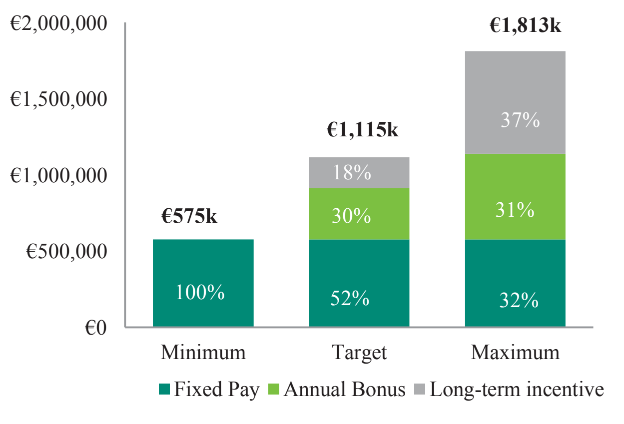
Market positioning
The Committee's policy is that fixed pay (including basic salary, pension and related benefits) should be positioned at an appropriate level compared to key peers taking into account the size and complexity of the role as well as the individuals experience, skills and performance. Executive Directors and senior managers should be given the opportunity to earn significant rewards but only if the required level of performance is achieved and long-term shareholder value is delivered.

During the year, remuneration of Executive Directors and senior management was benchmarked against both publicly quoted and private companies in Ireland and the design of our remuneration arrangements was benchmarked against peer group airlines.

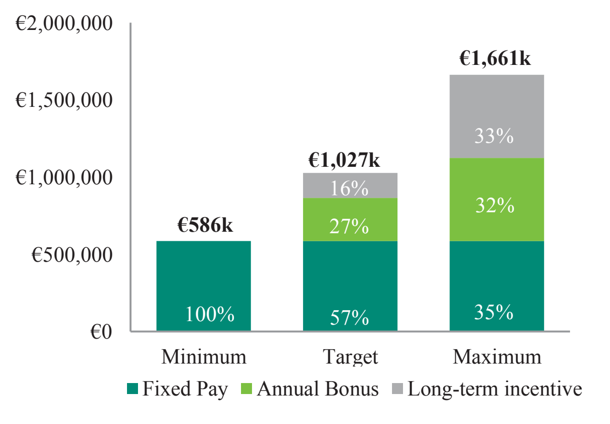
Illustrative performance scenarios

The following charts illustrate the different elements of the Executive Directors' remuneration under three different performance scenarios: 'Minimum, 'Target' and 'Maximum'. The assumptions used are provided below the charts. The illustrations are based on the current incentive framework.

Chief Executive Officer



Chief Financial Officer



Mr. Stephen Kavanagh 2015

	Component	**Minimum**	**Target**	**Maximum**
Fixed	Base salary	Base salary for 2015 - €425,000[1]		
	Pension	Value of contributions for 2015 - €106,250[1]		
	Benefits	Estimated taxable value of annual benefits provided in 2015 based on actual 2014 amount - €43,980		
Variable	Performance Related Pay Scheme	0% of salary	75% of salary	125% of salary
	Long Term Incentive Plan Assume Max Allocation 150%	0% vesting	30% vesting (median performance)[2]	100% vesting

Mr. Bernard Bot 2015

	Component	**Minimum**	**Target**	**Maximum**
Fixed	Base salary	Base salary for 2015 - €430,000		
	Pension	Value of contributions for 2015 - €107,500		
	Benefits	Estimated taxable value of annual benefits provided in 2015 based on actual 2014 amount - €48,438 (including relocation)		
Variable	Performance Related Pay Scheme	0% of salary	65% of salary	125% of salary
	Long Term Incentive Plan Assume Max Allocation 125%	0% vesting	30% vesting (median performance)[2]	100% vesting

(1) Based on two months contributions to 28 February 2015 in relation to his previous position and ten months from his appointment as Chief Executive Officer on 1 March 2015

(2) The use of median vesting of 30% in the 'target' column is illustrative only. Details of the LTIP targets and vesting schedule are shown on page 64 and 65

Remuneration for 2014

Further details of the payments and benefits received by the Executive Directors are set out in Table 2.1 in the Audited Information section below.

Changes in the management team

Mr. Andrew Macfarlane
On 1 September 2014 Andrew Macfarlane stepped down as Chief Financial Officer and Executive Director. This followed a five month transition period following the initial announcement of 25 March 2014. No payment in lieu of notice was made to Mr. Macfarlane and he did not receive an annual bonus award for the year ended 31 December 2014. Mr. Macfarlane was not granted an award under the 2014 Long Term Incentive Plan (LTIP). Due to retirement from the Board on 1 September 2014 his 2012 and 2013 LTIP awards were subject to pre-vesting forfeiture.

Mr. Bernard Bot
Bernard Bot was appointed Chief Financial Officer Designate on 18 July 2014 and became Chief Financial Officer and Executive Director on 1 September 2014.

Mr. Bot's basic salary is €430,000 per annum, in line with that of his predecessor prior to his voluntary reduction as part of the Greenfield program. Mr. Bot's maximum opportunity under the Performance Related Pay Scheme with respect to 2014 was 125% of salary (pro-rated to 33% in line with service). In 2014 his annual award under the Long Term Incentive Plan (LTIP) was 125% of salary subject to performance. Mr. Bot did not receive any additional incentive awards related to his recruitment. Mr. Bot's pension contribution is 25% of salary per annum.

Mr. Christoph Mueller
On 18 July 2014 it was announced that Aer Lingus and Christoph Mueller had agreed that Mr Mueller will step down as CEO and Executive Director in May 2015. It was subsequently announced on 7 January 2015 that Mr. Mueller would step down as CEO and Executive Director on 28 February 2015. Mr. Mueller did not receive any payment in lieu of notice. Given his tenure and the agreed circumstances of his leaving, the Committee decided that it was appropriate that Mr. Mueller would be treated as a "Good Leaver" for the purposes of his share options and outstanding LTIP shares awards granted in 2012, 2013 and 2014.

Mr. Mueller is entitled to exercise the vested tranches of his share options (tranches 1 and 2), which were awarded to him in 2009 on joining the Company, at any time prior to 7 September 2019. See page 70 for details of the structure of the scheme.

Mr. Mueller's outstanding LTIP share awards (granted in 2012, 2013 and 2014) continue in being, subject to the performance conditions being satisfied within the performance period, at the vesting level determined by the Committee, and in the case of the 2013 and 2014 share awards, reduced on a pro-rated basis to reflect the proportion of the relevant performance period that had elapsed on his departure date.

Mr. Mueller will also receive concession travel for himself, his spouse and dependent children subject to the payment of the reimbursement charge for a period of ten years from the departure date.

Mr. Stephen Kavanagh
On 16 February 2015 it was announced that Mr. Stephen Kavanagh would be appointed as Chief Executive Officer and Executive Director with effect from 1 March 2015. Mr. Kavanagh's salary was set by the Committee at €450,000 per annum; his pension contribution is 25% of salary. His benefits will include car allowance, health insurance and death-in-service benefits as well as the cost of reasonable expenses related to tax and legal advice in respect of entering into his Service Agreement as Chief Executive Officer. His Performance Related Pay opportunity is 125% of salary and LTIP opportunity is 150% of salary.

Salary
The basic salaries of Executive Directors are reviewed annually taking into account personal performance, Company performance, changes in responsibilities and market practice. Following the review in 2014, the changes in the management team, and consistent with the Company's desire to exercise pay restraint, no changes were made to any Executive Director's basic salary. Salaries that will apply with effect from 1 January 2015 are set out below:

	Base salary from 1 January 2015	Base salary from 1 March 2015	% increase from 2014
Mr. Christoph Mueller	€475,000 (1)	N/A	0% (1)
Mr. Bernard Bot	€430,000	€430,000	0%
Mr. Stephen Kavanagh	N/A	€450,000 (2)	N/A

(1) Mr. Mueller's 2015 salary is pro-rated due to his retirement as Chief Executive Officer and Executive Board member on 28 February 2015
(2) The amount of €450,000 reflects Mr. Kavanagh's salary per annum. This is pro-rated in the year 2015 due to his appointment as Chief Executive Officer and Executive Board member on 1 March 2015

Performance Related Pay Scheme

2014 awards
The 2014 bonus award was based on Company financial and strategic non-financial performance. The financial criteria comprised stretching operating profit targets to align with the goal of maintaining profitability. The strategic non-financial performance criteria set stretching goals in the areas of punctuality targets and an employee engagement target.

Performance against these targets is illustrated below:

Performance measure	Weighting	Performance Below Threshold	Performance between Threshold and Target	Target performance	Performance between Target and Maximum	Performance at Maximum
Operating profit	**70.00%**					●
Punctuality targets - departures	**5.63%**	●				
Punctuality targets - arrivals	**5.63%**			●		
Employee Engagement target	**18.75%**	●				

- Operating profit (before net exceptional items) for 2014 was €72 million, an increase of 17.8% from 2013. This exceeded the maximum performance target.

- Punctuality targets are based on the percentage of Aer Lingus departures and arrivals that are on time. This is assessed on an absolute and relative basis. For 2014, performance was below threshold for departures and on target, based on relative performance, for arrivals

- People targets are based on improvements in employee engagement. For 2014, performance was below threshold.

For the corporate performance element, based on this performance, the bonus awards for 2014 was 73% of maximum.

Individual bonus awards for Executive Directors were 75% based on the corporate performance and 25% based upon the achievement of individual targets.

Particular achievements in the year were:

- Resolution of the significant and long running issues arising from the funding deficit in the Irish Airlines (General Employees) Superannuation Scheme (IASS);
- Successful expansion of transatlantic routes;
- Refresh of the executive team with the recruitment of four executive committee members in 2014.

Based on this performance, the bonus awards to Executive Directors were:

	2014 bonus award	% of salary	% of maximum award
Mr. Christoph Mueller	€523,000	110%	73%
Mr. Bernard Bot (1)	€133,087	31%	74%

(1) Mr. Bot's 2014 bonus award is pro-rated based on his service as an Executive Director from 1 September 2014 to 31 December 2014.

2015 awards
The structure of the 2015 Performance Related Pay Scheme for Executive Directors will remain broadly unchanged to that which applied in 2014. The Remuneration Committee believes that this structure continues to be appropriate. The majority of the bonus is based on the delivery of Company profitability, punctuality and people (employee and customer) targets. Delivering sustainable profit performance is a key goal of the business and the Committee believes that this should form the main part of the bonus. However, the Committee also recognises that how we deliver our service to customers today impacts our future profitability. Therefore the Committee continues to believe that executives should be incentivised to meet punctuality and people targets through the bonus plan. Therefore the 2015 plan will also include a customer related target; the Committee decided that it was appropriate to include this additional strategic non-financial measure. This measure will be linked to customer feedback based on our survey, Voice of the Customer. At Aer Lingus, customer service is at the heart of generating long-term shareholder value and therefore the Committee felt that it was important that this was included as a performance measure. The non-financial measures will continue to account for 30% of the corporate scorecard.

The breakdown of weighting of measures is illustrated below:

<table>
<tr><td rowspan="3">Corporate scorecard</td><td>Financial Performance (70%)</td><td colspan="3">Strategic Non-financial strategic performance (30%)</td></tr>
<tr><td rowspan="2">Operating profit</td><td colspan="2">Customer targets (20%)</td><td rowspan="2">Employee engagement target (10%)</td></tr>
<tr><td>Punctuality (10%)</td><td>Customer satisfaction (10%)</td></tr>
</table>

<table>
<tr><td rowspan="3">Individual awards for Executive Directors</td><td colspan="4">Corporate scorecard (75%)</td><td rowspan="3">Individual performance (25%)</td></tr>
<tr><td>Financial Performance (70%)</td><td colspan="3">Non-financial strategic performance (30%)</td></tr>
<tr><td>Operating profit</td><td>Punctuality targets (10%)</td><td>Customer satisfaction (10%)</td><td>Engagement employee target (10%)</td></tr>
</table>

The maximum opportunity for Executive Directors is 125% of salary.

Individual pay-outs for Executive Directors and selected senior managers were 75% based on the corporate performance and 25% based upon the achievement of individual targets. Individual pay-outs for the remainder of the senior management team were 30% based on the corporate performance and 70% based upon the achievement of individual targets. This emphasis on individual targets allowed the Company to take account of the subtlety and complexity of the work undertaken at this level and to focus participants on the right financial and strategic outcomes.

Long Term Incentive Plan ("LTIP")

2012 awards
The Remuneration Committee assessed TSR performance for the performance period 1 January 2012 to 31 December 2014, and determined that the vesting level of the 2012 LTIP award was 95%. For further details in relation to the 2012 LTIP award, refer to the letter from the Chairman of the Remuneration Committee above. A summary of the performance assessment is below:

	Aer Lingus performance	**% of award vested**
Relative TSR - European Airlines Group	3rd of 9 companies	90%
Relative TSR - ISEQ General Index	5th of 35 companies	100%
EBITDAR underpin	As (1) Positive cumulative EBITDAR before net exceptional items was €608.1 million for the performance period and (2) positive EBITDAR is shown in Aer Lingus' financial accounts in the final year of the performance period (before exceptional items), the EBITDAR underpin was achieved	-
Total		95%

The European Airlines Group included:

- Easyjet plc
- Ryanair Holdings plc
- Deutsche Lufthansa AG
- International Airlines Consolidated Group S.A.
- Finnair Oyi
- Air France- KLM
- Air Berlin plc
- SAS AB

The 2012 LTIP award has not yet vested; for further details in relation to the 2012 LTIP award, refer to the letter from the Chairman of the Remuneration Committee above. Mr. Macfarlane's award was forfeited upon his retirement from the Board.

Mr. Bernard Bot did not receive an LTIP award in 2012 as he was not an employee of the Company at the time of grant.

2014 awards
In 2014 Mr. Christoph Mueller received an award with a market value at grant date of 150% of 2014 basic salary. The new Chief Financial Officer (Mr. Bernard Bot) received an award with market value at grant date of 125% of basic salary. As disclosed in the 2013 Annual Report, Mr. Mueller's 2014 LTIP award was increased from 100% to 150% of salary to recognise and reward his exceptional contribution to the Company's successful business transformation and performance against the backdrop of a third unsuccessful hostile takeover bid for the Company by Ryanair.

Awards are subject to relative total shareholder return ("TSR") performance measures as set out in the table above.

TSR measures the change in value for shareholders arising from changes in the Company's share price plus the returns that would arise for shareholders if dividends were reinvested in the Company's shares on the relevant ex-dividend date, net of corporation tax but before income tax.

The vesting schedule for these measures is below. Straight line vesting applies between these points.

TSR performance percentile	Proportion vesting
83rd percentile and above	100%
67th percentile	80%
50th percentile (median)	30%
Below 50th percentile	0%

In addition, an EBITDAR underpin applies. For awards to vest the Company must achieve:

- positive cumulative EBITDAR (before exceptional items) of at least €100 million during the performance period; and
- positive EBITDAR as shown in the Company's financial accounts in the final year of the performance period (before exceptional items).

Information regarding LTIP awards to Executive Directors is set out in Table 2.4 on page 70.

2015 awards
No 2015 award has been made to date as the Company was and remains in an offer period. Should an award be granted, the structure of the 2015 LTIP award will be the same as for the 2014 award. The performance measures and maximum opportunities for Executive Directors will remain unchanged. As mentioned above, the Committee does not intend to undertake the proposed review of the LTIP during 2015 though it intends to revisit the plan as a whole prior to its expiry in 2017.

Share Option Grant to Mr. Mueller on Recruitment
On 8 September 2009 at the time of his recruitment Mr. Christoph Mueller was granted share options in respect of 1,500,000 shares in the Company.

Under the terms of this arrangement, the share options vest and become exercisable provided the closing price of the Company's shares remain above certain fixed prices (detailed below) for at least 25 of the 40 days prior to certain specific dates. Further details relating to the options are set out in Table 2.3 on page 70. The Remuneration Committee selected performance criteria which it believed were sufficiently stretching to reasonably incentivise Mr. Christoph Mueller to deliver value for Aer Lingus shareholders.

The first two tranches of 500,000 share options vested in September 2012 and September 2013 respectively as the share price targets (€1.00 and €1.60) for these tranches were met, reflecting significant value for shareholders.

In September 2014, the final tranche of 500,000 share options became exercisable subject to the achievement of a closing market share price of €2.20 on at least 25 days of the 40 days to 7 September 2014. This target was not achieved and the 500,000 share options lapsed.

Directors' Pension Benefits
Information regarding the pension benefits of the Directors is outlined in Table 2.1 on page 68. Mr. Christoph Mueller received a pension contribution equal to 40% of basic salary and Mr. Bernard Bot receives a pension contribution equal to 25% of basic salary.

Up to his retirement, the Company contributed 25% of basic salary (before his voluntary reduction) to pension arrangements as agreed with Mr. Andrew Macfarlane.

From his appointment as Chief Executive Officer on 1 March 2015, Mr. Stephen Kavanagh receives a pension contribution equal to 25% of basic salary.

Payments on termination

Service Contracts
The Company has a service contract or letter of appointment with all Board members. All service contracts with Executive Directors are on similar terms and have notice periods of 12 months (or less) and comply with 2012 UK Corporate Governance Code and the EU Commission 2009 Guidance on Remuneration regulations for payments on termination.

Both the CEO and the CFO have a right of termination exercisable in certain circumstances, and subject to the prior consent of the Committee, following a change of control of the Company as detailed in the Corporate Governance Report on pages 55 and 56.

Long Term Incentive Plan
When LTIP participants leave employment before the end of the performance period, outstanding awards will generally lapse in full.

The Committee may allow awards to vest, in the ordinary course (i.e. at the end of the applicable performance period and subject to the performance conditions), reduced on a pro-rated basis to reflect the proportion of the relevant performance period that had elapsed on the individual's termination date. This treatment may apply in the case of death, injury, disability, redundancy, retirement, termination of employment by mutual agreement, or any other circumstances as determined by the Remuneration Committee.

If the participant is summarily dismissed, or it emerges that they should have been summarily dismissed, outstanding LTIP awards will lapse in full.

At the date of grant of the 2013 and 2014 share awards, the Remuneration Committee determined that the awards would vest on a pro-rated basis on a change of control. The Remuneration Committee retains an overriding discretion with regard to vesting on change of control.

Non-Executive Directors
The terms of the Non-Executive Directors' appointment are set out in letters of appointment which reflect the 2012 UK Corporate Governance Code. It is the Company's policy that each Non-Executive Director is appointed for a fixed period not exceeding three years (with the potential for a second three year term), subject to satisfactory performance and (other than the Ministerial Nominees to the Board) re-election at any annual general meeting where this is required. Recommendation to shareholders for the election of Non-Executive Directors beyond six years will only be made following review by the Board. None of the Non- Executive Directors is a party to any service contract with the Company that provides for benefits upon termination.

Concessionary Travel
Directors and dependent members of their families can avail themselves of concessionary travel on Aer Lingus services. The concession applies to their travel on vacation and is on a space available basis. It is not available for a Director's own individual business purposes. The Company has obtained the approval of the Office of the Revenue Commissioners for the level of reimbursement charge to be applied to such concession travel to defray the marginal cost to the Company of the seat.

Non-Executive Directors' Fees
Non-Executive Directors are remunerated by way of fixed Directors' fees. They are not eligible to participate in any Aer Lingus bonus scheme or other share related incentive schemes. The fees paid for 2014 for the Chairman and Non-Executive Directors are as follows:

Role	Fees (per annum)
Chairman	€126,000
Basic fees for other Non-Executive Directors	€32,400
Additional fee for Chair of the Audit Committee	€7,200

These fees were reduced voluntarily in 2009 from €175,000 per annum for the chairman of the Board and €45,000 per annum for Non-Executive Directors.

During the year the Committee reviewed the fees paid to Non-Executive Directors compared to other similar sized listed companies and concluded that fees were positioned towards the lower end of market practice. This will be kept under review in 2015.

On 7 January 2015 the Chairman assumed additional executive responsibilities for strategic matters following the agreement that Mr. Mueller would step down as CEO on 28 February 2015. Following this change the Chairman received an additional fee of €125,000 per annum pro-rated (being €19,232 in total) for the period that he undertook the additional executive responsibilities. This additional fee ceased on 1 March 2015 upon the appointment of Mr. Stephen Kavanagh as CEO.

As disclosed on 24 September 2012, in addition to his normal responsibilities as a Director of the Company, the Board asked Mr. Francis Hackett to take on additional responsibility in chairing a legal committee to support management in relation to the Company's application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters. Mr. Hackett's terms of appointment were amended in order to reflect these additional responsibilities. Mr. Hackett was paid fees of €12,000 in 2014 in respect of these additional responsibilities. Mr. Hackett retired from the Board in February 2014.

Directors' Shareholdings
The interests of the Directors in office at 31 December 2014 in the shares of the Company are outlined in Table 2.2 on page 69.

Executive Directors' External Directorships
In 2011, the Board consented to Mr. Mueller accepting an appointment to the Board of Tourism Ireland as a Non-Executive Director. Mr. Mueller retained his fees of €7,965 per annum from this external directorship.

In 2013, the Board consented to Mr. Mueller accepting an appointment to the Board of An Post as Chairman. Mr. Mueller retained his fees of €31,500 paid in 2014 from this external directorship.

Mr. Bot was at the time of his appointment and remains Chairman of the Supervisory Board of Avio Diepen B.V., a provider of aerospace supply chain management solutions. Mr. Bot did not retain his fees of €10,000 paid in 2014 in respect of this role, which was paid to charity by Avio Diepen B.V.

The Remuneration Committee
The Remuneration Committee of the Board is composed of the Chairman of the Board and three independent Non-Executive Directors. Throughout 2014 the members of the Remuneration Committee were Mr. Nigel Northridge (Chairman), Mr. Colm Barrington and Ms. Nicola Shaw. Ms. Emer Gilvarry joined the Committee with effect from July 2014. The Chairman of the Board, who was independent on appointment, is deemed to be an independent member of the Remuneration Committee. Mr. Nigel Northridge, who was appointed to the Board with effect from 1 January 2014, was appointed Chair of the Remuneration Committee on and with effect from 23 January 2014.

The Remuneration Committee met seven times during 2014 and also took a number of decisions by written resolution. One of its meetings, a joint meeting with the Nominations Committee, was not pre-scheduled and was convened at short notice. Attendance at meetings held is set out in the table on page 54.

The Remuneration Committee determines, in line with its terms of reference, the remuneration policy for the Executive Directors, the Chairman of the Board, the Company Secretary, each member of the executive management team, and such other senior management members as it is designated to consider and monitors and approves these total remuneration packages within the terms of the agreed policy. The Remuneration 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 payments made under such schemes.

In making its decisions, the Remuneration Committee can seek advice from the Chief Executive Officer, the Chief People and Change Officer and the HR Strategy and Planning Specialist, who are invited to attend its meetings as and when appropriate. The Company Secretary is secretary to the Committee.

Up to the 2014 Annual General Meeting the Remuneration Committee retained Towers Watson as its external remuneration consultants. During 2014 Towers Watson provided advice to the Committee. Towers Watson also provided the Company with market remuneration data for other senior management roles. Towers Watson was engaged by, and reported directly to, the Remuneration Committee in respect of these services. In addition to the services it provides to the Remuneration Committee, Towers Watson is engaged to provide communications advice to multiple parties in respect of the IASS solution. Apart from the provision of these services, Towers Watson does not provide other services to the Company. Towers Watson continues to provide the Company with market remuneration data for Board, Executive Director and other senior management roles.

In May 2014 the Remuneration Committee formally reviewed its external consultants. As a result of this process the Committee appointed Deloitte LLP as independent Committee advisors in July 2014. In 2014 Deloitte LLP advised the Committee on remuneration strategy and structure. Other than these services Deloitte LLP provided tax advice, payroll services and corporate consultancy services to the Company.

Deloitte and Towers Watson are both members of the Remuneration Consultants Group and as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The remuneration of Non-Executive Directors is a matter for the Chairman of the Board and the Executive Directors. No individuals are involved in any decisions on their own remuneration.

Wider employee pay

Employee Gain-Sharing Incentive and Stabilisation Payments

In 2009, a provision was made for employee gain-sharing incentives for the Greenfield Cost Reduction Program. 3,700 of the Group's employees were eligible to participate. Executive Directors and senior management were not eligible to participate in these gain-sharing incentives. The payment of the gain-sharing incentives was contingent on a minimum level of profitability in a given fiscal year and the achievement of the Greenfield Cost Reduction Program targets. The required minimum level of profitability was achieved in 2013 and all gainsharing payments owing to staff were paid by May 2014.

In conjunction with the IASS solution, described in detail in Note 26 certain employment cost stabilisation measures were negotiated which provide the Company with a measure of stability for its non-pilot employment cost base in the period until 31 March 2017. Under these arrangements, annual salary increments and annual salary inflation will not be payable to non-pilot staff in 2014, 2015, and 2016. As a result, any annual salary increments and annual salary inflation payable from 1 April 2017 onwards will be calculated by reference to a lower staff cost base than would otherwise be the case in the absence of employment cost stabilisation measures. Agreement of staff and unions to waive any annual salary increment entitlements and pensionable pay increases during the period was provided as a result of the ballots in favour of the IASS solution. Aer Lingus recognises that there is a need for some moderate pay progression over this period and for this reason, the waiving by staff of contracted and expected pay increases in the period to March 2017 will be supplemented by a lower stabilisation payment. The total amount of the annual stabilisation payments is significantly lower than the staff cost increases avoided through the non-payment of annual salary increments and annual salary inflation. The staff stabilisation payments do not represent pensionable pay and will not be reflected in the calculation of future base salary costs following the end of the stabilisation period post 31 March 2017. Each payment is a once-off sum in the year in question. The staff stabilisation payments will not accumulate and will not be paid from 2017 onwards. From a financial reporting perspective, these stabilisation payments to staff will be recognised as staff costs in the income statement for the relevant financial year in which they are incurred.

Audited Information

The information on pages 68 to 70 forms part of the financial statements.

Table 2.1 Individual Directors' remuneration for year ended 31 December 2014

		Basic salary and fees	Pension contribution	Annual performance related bonus	Other benefits (1)	Total 2014	Total 2013
		€'000	€'000	€'000	€'000	€'000	€'000
Christoph Mueller	(2)	475	190	523	48	1,236	1,521
Andrew Macfarlane	(3)(4)(5)	221	72	-	36	329	669
Bernard Bot	(6) (7)	143	36	133	48	360	n/a
		839	**298**	**656**	**132**	**1,925**	2,190
Colm Barrington		126	-	-	-	126	126
David Begg		32	-	-	-	32	32
Montie Brewer		32	-	-	-	32	32
Laurence Crowley	(8)	32	-	-	-	32	37
Nigel Northridge		32	-	-	-	32	n/a
Nicolas Villen		32	-	-	-	32	n/a
Francis Hackett	(9) (10)	15	-	-	-	15	154
Colin Hunt	(10)	3	-	-	-	3	32
Mella Frewen	(10)	-	-	-	-	-	32
Tom Moran	(10)	-	-	-	-	-	32
Danuta Gray	(10)	-	-	-	-	-	32
John Hartnett		32	-	-	-	32	n/a
Nicola Shaw	(11)	40	-	-	-	40	34
Frank O'Connor	(12)	26	-	-	-	26	n/a
Emer Gilvarry	(12)	25	-	-	-	25	n/a
William Slattery		32	-	-	-	32	15
		459	**-**	**-**	**-**	**459**	558
Total		**1,298**	**298**	**656**	**132**	**2,384**	2,748

(1) *Other benefits relate principally to car allowance, relocation benefits, health insurance, death in service and income protection benefits.*

(2) *In addition to the amounts above, an amount has been charged to the income statement in relation to the estimated cost of shares which could vest under the share option award granted to Mr. Mueller prior to his appointment as a Director and in relation to the estimated cost of shares which could vest under the 2012, 2013 and 2014 LTIP awards. In respect of the share option award granted to Mr. Mueller prior to his appointment as a Director and the 2012, 2013 and 2014 LTIP awards to Mr. Mueller, an amount of €446,916 has been charged in 2014.*

(3) *In respect of Mr. Macfarlane the cumulative charge of €412,385 in respect of his outstanding LTIP awards at the date of his departure was reversed through the income statement.*

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

(5) *Mr. Macfarlane retired as a Director on 1 September 2014.*

(6) *Mr. Bot joined the Board on 1 September 2014.*

(7) *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 2014 LTIP award to Mr. Bot. In respect of the 2014 LTIP award to Mr. Bot, an amount of €112,179 has been charged in 2014.*

(8) *Mr. Crowley received an additional fee of €4,800 in 2013 in respect of his Chairmanship of the Audit Committee to September 2013.*

(9) *Mr. Hackett received additional fees of €12,000 in 2014 in respect of his assumption of additional responsibilities in chairing a legal committee to support management in relation to the Company's application to the High Court for a capital reduction, the issues faced by the pension schemes of which Aer Lingus Limited is a participating employer and related matters.*

(10) *Mr. Hackett, Dr. Hunt retired in January 2014; Ms. Gray, Ms. Frewen and Mr. Moran retired on 31 December 2013.*

(11) *Ms. Shaw received an additional fee of €7,200 in 2014 in respect of her Chairmanship of the Audit Committee throughout 2014 and an additional €2,400 in 2013 in respect of her Chairmanship of the Audit Committee from September 2013.*

(12) *Mr. O'Connor joined the Board on 14 March 2014 and Ms. Gilvarry joined the Board on 28 March 2014.*

Table 2.2 Interest of Directors in office at 31 December 2014 in the shares of the Group

	31 December 2014 Number of shares	1 January 2014 Number of shares *
Colm Barrington	300,000	300,000
David Begg	500	500
Bernard Bot	-	-
Montie Brewer	-	-
Laurence Crowley	-	-
Emer Gilvarry	-	-
John Hartnett	-	-
Nigel Northridge	-	-
Frank O'Connor	-	-
Christoph Mueller [1]	709,555	613,625
Nicola Shaw	23,945	23,945
William Slattery	26,295	-
Nicolas Villen	-	-

** Or date of appointment if later*

[1] On 8 September 2009, Mr. Christoph Mueller was granted share options in respect of 1,500,000 shares. In September 2014, the Remuneration Committee determined that the performance criteria in respect of the third tranche of 500,000 share options granted to Mr. Mueller had not been achieved, as the closing market share price of €2.20 was not achieved on at least 25 of the 40 days prior to 7 September 2014. These 500,000 share options lapsed in full.

There was no change in the Directors' interests in the period between 31 December 2014 and 27 March 2015.

As at 31 December 2014 and subject to achieving the closing market share prices (as set out in the third column) below, for at least 25 of the 40 days prior to the relevant dates noted below, there are outstanding options of 1,000,000 ordinary shares granted to Mr. Christoph Mueller composed as follows:

Table 2.3 Share Options

	No. of ordinary shares	Closing market share price and relevant date for options to become exercisable	Exercise price	Normal dates exercisable	Vesting status
Mr. Christoph Mueller	500,000	€1.00 7 September 2012	€0.573 [(1)]	7 September 2012 until 7 September 2019	Vested but not exercised
	500,000	€1.60 7 September 2013	€0.677[(2)]	7 September 2013 until 7 September 2019	Vested but not exercised
	500,000	€2.20 7 September 2014	€0.886[(3)]	7 September 2014 until 7 September 2019	Lapsed

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

Table 2.4 LTIP Awards [(1)]

	LTIP Award (Number of shares)	Year	Performance Period	Vesting Status
Mr. Christoph Mueller	600,000	2011	1 January 2011 - 31 December 2013	Vested on 24 February 2014 in the amount of 200,400 shares being 33.4% of award
	490,000	2012	1 January 2012 - 31 December 2014	Yet to vest
	465,000	2013	1 January 2013 - 31 December 2015	Pending (subject to achievement of performance criteria) – subject to pro-rating
	532,355	2014	1 January 2014 - 31 December 2016	Pending (subject to achievement of performance criteria) – subject to pro-rating
Mr. Andrew Macfarlane	500,000	2011	1 January 2011 - 31 December 2013	Vested on 24 February 2014 in the amount of 167,000 shares being 33.4% of award
	440,000	2012	1 January 2012 - 31 December 2014	Forfeited upon retirement from the Board
	280,000	2013	1 January 2013 - 31 December 2015	Forfeited upon retirement from the Board
Mr. Bernard Bot	401,548	2014	1 January 2014 - 31 December 2016	Pending (subject to achievement of performance criteria)

[(1)] Any vesting of these shares is subject to the achievement of the performance targets outlined above.

Letter from the Chair of the Audit Committee

Dear fellow shareholders,

Introduction

In 2014 the Audit Committee convened 11 times to perform its mandate of scrutinizing and monitoring the integrity of the financial reporting process within the Company and monitoring the effectiveness of the Company's internal controls, internal audit and risk management systems. Attendance at meetings held is set out in the table on 54. In addition, the Committee closely monitored the external statutory audit of the annual accounts, while also keeping the independence of the Company's external audit firm under review. The Committee reviewed and approved all externally reported financial information.

In carrying out this mandate, the Audit Committee undertook significant engagement with management of the Company, the providers of the internal audit function (i.e. Ernst & Young – "EY") and the external audit firm (i.e. PricewaterhouseCoopers – "PwC"). In doing so, the Audit Committee has reviewed, and challenged where it judged necessary, the material information presented to it and, in monitoring the financial reporting process, has considered, in particular, the consistency and appropriateness of accounting policies, the methodology used to account for significant transactions, the basis of material estimates and judgements, and the clarity of disclosures made.

The role, responsibilities, authority and duties of the Audit Committee are set out in our written Terms of Reference. We reviewed them this year but following an adjustment in 2013 we didn't find the need for further changes in 2014. Each year we will review them and update if required in order to take account of revisions to the UK Corporate Governance Code. The Audit Committee's Terms of Reference are available under the Investor Relations section of our website at http://corporate.aerlingus.com/investorrelations/

Composition
Mr. Laurence Crowley, Mr. Montie Brewer, Mr. Nicolás Villén and I were committee members throughout the year. Mr. Nicolás Villén was appointed as a member of the Audit Committee in January 2014, following his appointment to the Board on 1 January 2014 and prior to the first Audit Committee meeting of 2014. Each member of the Audit Committee in 2014 was an independent Non-Executive Director of the Company.

Mr. Crowley, a Chartered Accountant, and Mr. Villén, an experienced former CFO and CEO, are the Audit Committee's financial experts. In addition, all other members of the Audit Committee have recent and relevant financial experience. Further details of the Directors' experience and qualifications are set out on pages 34 to 36.

Other individuals such as the Chairman of the Board, the Chief Executive, the Chief Financial Officer, the Director of Finance, representatives from the finance function and the Internal and External Auditors attend upon standing invitation.

Assessment of risk
To assist the Audit Committee in monitoring and keeping under review the effectiveness of the Company's systems of risk management and internal control, the Board has constituted a Risk Committee with particular responsibility in this regard, including oversight of the Company's Risk Register. Minutes of meetings of the Risk Committee during 2014 were tabled at subsequent meetings of the Audit Committee and the members of each of the Audit Committee and the Risk Committee also met to undertake a joint annual review of the Risk Register and system of internal control. The ongoing assessment of risk was a key driver in informing the work and actions of the Audit Committee during 2014 and the feedback between the two Committees helps with ongoing governance of the risk management and assessment process.

Principal activities
During the course of the year, the principal business of the Audit Committee has included consideration of the following items:

- first quarter interim management statement;
- half year results;
- third quarter interim management statement;
- full year preliminary results and annual report;
- material accounting judgements affecting the financial statements based on reports from both management and the external auditors;
- internal audit and plans;
- external audit and plans;
- risk and internal control plans and reports, including:
  - internal audit reports, received from the internal audit team on a periodic basis as 2014 progressed;
  - tracking the implementation of internal audit recommendations;
  - reviewing the effectiveness of the Group's risk management and internal control systems (details of which are set out on pages 52 and 53);
  - whistleblowing/good faith reporting; and
  - risk assessment;
- accounting policies;
- taxation, taxation risk and compliance;
- dividend policy and recommendation;
- internal audit effectiveness and independence;
- external audit effectiveness, independence, rotation and re-appointment; and
- internal financial reporting controls

The meetings of the Audit Committee are scheduled to take place in advance of scheduled Board meetings. It provides a verbal report of the key matters discussed at Audit Committee to the following scheduled Board meeting, to ensure that all Directors are kept informed of the Audit Committee's agenda. In addition, the minutes of the Audit Committee meetings are subsequently made available to the Board.

Internal audit

The Company's internal audit function is provided by EY under a service agreement. The effectiveness and independence of the function was monitored and kept under review by the Audit Committee through regular meetings with EY during the course of 2014. EY was appointed for a three year period. Its current contract expired at the end of 2014, but was extended at the option of Aer Lingus until September 2015. The annual internal audit plan is developed each year in response to risks in the business and in consultation between management, the internal auditors and the Audit Committee. In developing the plan, enough flexibility is built in to allow the internal audit function to respond to either changes in the risk profile or issues that arise during the course of the year.

The internal audit plan approved for 2014 was kept under review by the Audit Committee throughout the year and the main findings of each resulting internal audit report were then reported to the Audit Committee. The Audit Committee monitored management action to implement the findings and recommendations of the internal auditors through the maintenance of a log, which was updated on a rolling basis and kept under review at meetings of the Audit Committee. In addition to attendance at meetings of the Audit Committee, EY also met privately with the members of the Audit Committee in the absence of management during the course of the year.

External audit

The Audit Committee received audit plans and reports from the Company's external auditors, PwC, throughout the year. In addition, the members of the Audit Committee met privately with PwC in the absence of management to discuss the work of PwC and any issues arising from the audit process.

The effectiveness of the audit process itself was kept under review by the Audit Committee through its engagement with PwC. The Audit Committee has adopted a formal framework for its review of the effectiveness of the external audit process and audit quality focused on strong audit governance, the firm's methodology and its application to Aer Lingus, robustness of challenge and findings on areas which require management judgement and quality of senior members of the audit team. Specifically, this includes assessments in the following areas:

- the lead audit engagement partner;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- responsiveness of the audit plan to changes in our business;
- the execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit Committee;
- how the auditor supports the work of the Audit Committee;
- how the audit contributes insights and adds value;
- a review of the audit firm's independence and objectivity; and
- the quality of the formal audit report to shareholders.

An auditor assessment tool is now completed each year by each member of the Audit Committee and by the CFO. This tool has been used to assess the audit of the 2014 financial statements. Feedback is also sought from the CEO, and senior members of the finance team. The feedback from this process is considered by the Audit Committee and is provided both to the auditors and to management. If necessary, action plans arising would also be reviewed by the Audit Committee, although to date this has not been considered necessary.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of independent audit, the booking of any audit adjustments arising and the timely provision of draft financial statements for review by the auditors and the Audit Committee.

Every two years, the Audit Committee requests that a partner independent of the audit engagement team discusses the quality of the external audit process with the Audit Committee Chair and the CFO using this evaluation framework. The first such discussion has occurred in early 2015 relating to the audit of the 2014 financial statements and the principal elements of that discussion focused on retention of a strong team through a period of uncertainty associated with the rotation of the partner, forthcoming tendering on foot of the new EU regulatory framework (see below for details) and the IAG proposal.

Following its review of the external audit, the Audit Committee has concluded that the audit was effective, and that the Company receives good and proactive service from PwC. The Audit Committee therefore recommended to the Board that PwC should be proposed for re-appointment as auditors of the Company at the Company's Annual General Meeting.

PwC has served as Company's external audit firm since 1996 and the audit was last put out to tender in 2003. A new EU regulatory framework was introduced during 2014 requiring mandatory rotation of the external auditors of public interest entities (including listed companies) at least every ten years. EU Member States can extend the maximum audit tenure up to twenty years, provided that a public tender is conducted at least every ten years and this is currently under consideration by the Irish Government. We anticipate the new requirements around tendering will apply to accounting periods commencing on or after 17 June 2016. The current lead partner will rotate off the Aer Lingus audit following the completion of the 2015 year end reporting.

In accordance with our Terms of Reference it is the Audit Committee's responsibility to develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter. The Audit Committee permits the external auditors to perform a certain amount of non-audit work where they are best placed to provide those services and they are not of a scale or nature that would pose a threat to independence. It is the policy of Aer Lingus to restrict aggregate fees for non-audit activities of the auditors in any given year to €200,000, unless the Audit Committee is satisfied that there are good reasons for exceeding this amount and that there is no alternative service provider who could discharge the required service. In this regard in 2014 the Audit Committee was consulted in relation to the services undertaken by PwC in relation to the IASS pension circular and the associated fees.

In addition, it is the policy of Aer Lingus that the Chair of the Audit Committee is consulted in advance if it is proposed to engage the auditors on any individual piece of non-audit work where the fee is likely to exceed €50,000.

In 2014, fees were paid to PwC as follows:

	2014 €	2013 €
Statutory audit	340,000	340,000
Review of interim results, quarterly IMS and agreed upon procedures	58,500	58,500
Audit and audit related	**398,500**	**398,500**
Tax advice (including for IASS)	131,925	192,861
IASS solution and ESOT administrative fees	380,146	220,000
Non-audit related	**512,071**	**412,861**
Total	**910,571**	**811,361**

Tax advice relates primarily to assistance with certain aspects of overseas VAT compliance and Irish corporation tax.

Aer Lingus incurred a significant amount (i.e. €470,646 including tax advice fees of €95,000) of fees with PwC in 2014 in relation to services provided in relation to the resolution of the issues represented by the funding difficulties in the IASS pension scheme. These services included a detailed review of Aer Lingus' profit forecast and working capital position in advance of the issue of the IASS solution circular issued on 18 November 2014 and the EGM held on 10 December 2014. In addition, the IASS related fees also included amounts paid in respect of advice on corporation tax and income tax matters relating to the IASS solution. Aer Lingus regards these fees as once-off in nature. When these non-recurring fees are removed, Aer Lingus incurred €41,425 of non-audit services with PwC in 2014, representing 12.1% of audit fees in 2014. The profit forecast review in 2013 was in connection with a potential circular to shareholders related to the IASS pension scheme. This circular was not issued.

Financial reporting and significant financial issues
The UK Corporate Governance Code requires that detail of the significant issues considered by the Audit Committee in relation to the financial statements and how those issues have been addressed be set out in this report. During 2014, the Audit Committee considered whether suitable accounting policies have been adopted, whether management had made appropriate judgements and estimates and whether disclosures were balanced and fair. The most significant issues dealt with by the Audit Committee in that regard during 2014 are set out below. These issues are also areas of audit focus as noted in the 'Auditors Report on the financial statements'.

Pension accounting and disclosure risk
The Audit Committee, in conjunction with the Board, received reports throughout the financial year regarding the ongoing efforts by management and other relevant parties to address the funding issues in the IASS, including some specifically convened Board calls. On 18 November 2014, Aer Lingus Group plc issued a circular for approval by shareholders. The resolution to authorise the Directors to proceed with the implementation of the IASS solution was then successfully passed at the EGM on 10 December 2014.

Throughout 2014, the Audit Committee queried developments in respect of the IASS and the implications on the Group's existing and planned accounting treatment, with final consideration given at the Audit Committee on 11 December 2014. Specifically, at this meeting the Audit Committee was informed of the key financial reporting implications of the IASS solution on the financial statements including:

- **€190.7 million once-off pension contribution:** The €190.7 million once-off pension contribution was provided for in the financial statements on the receipt of shareholder approval. This has been presented as an exceptional item 'IASS solution – once-off pension contribution' in the income statement and as a provision in the statement of financial position. The contribution will be released to the individual pension accounts of beneficiaries as correctly executed waivers are received. No such correctly executed waivers had been received as at 31 December 2014. See Notes 10 and 29.
- **Defined contribution schemes:** It was brought to the Audit Committee's attention that this contribution is being made to two new defined contribution schemes and the waivers which must be returned by members to receive their share of the once-off contribution makes clear that the contribution is a full and final settlement of claims against Aer Lingus Limited and the IASS in respect of pensions. Therefore, this is being accounted for as a defined contribution scheme in accordance with IAS19R *Employee Benefits*. See Note 26.
- **Restricted cash held in escrow:** The once-off contribution of €190.7 million has been placed in an escrow structure which will be disclosed as a restricted cash balance in the Group's consolidated statement of financial position, pending execution of the waivers referred to above. See Note 23.
- **Risk of litigation:** There continues to be a risk of litigation and therefore the disclosures throughout the financial statements refer to same.
- **Post retirement income streaming:** The Group previously recognised a liability in regards to an income streaming arrangement in respect of certain current and former employees who have an elective post-retirement entitlement. As this liability is calculated by reference to those benefits that would otherwise be payable on retirement under the IASS, following the IASS solution this liability has been calculated based on 80% of the coordinated IASS benefit. In addition, IASS benefit accrual has ceased with effect from 1 January 2015. Together, these changes have resulted in a reduction in the post-employment benefit obligations as at 31 December 2014. The impact of these changes to the liability have been treated as a past service credit of €21.7 million in accordance with IAS 19R and recognised in the income statement as an exceptional item. This liability reduces further and potentially to nil as correctly executed waivers are received. No such correctly executed waivers had been received as at 31 December 2014. See Notes 10 and 29.
- **Stabilisation payments:** As part of the IASS solution, once-off stabilisation payments totalling €5,850 for each employee will be spread over each period in 2014, 2015 and 2016. In 2014, the first of these stabilisation payments of €2,250 per employee covering the

period from October 2012 to December 2014 was incurred (totalling €9.3 million) and these costs have been recognised within staff costs in the 2014 income statement.

The Audit Committee confirmed that they were satisfied with management's treatment of the above items.

Exceptional items – presentation and disclosure
Aer Lingus' reporting policy is to highlight within the income statement as 'exceptional items' those items of income and expense which 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 typically include business repositioning costs, takeover defence costs, profit or loss on disposal of significant items of property, plant and equipment, litigation costs and settlements, profit or loss on disposal of investments and impairment of assets, or once-off costs or credits where separate identification is important to gain an understanding of the financial statements.

Judgement is used by the Group in assessing the particular items which should be disclosed in the income statement and related notes as exceptional items, the value of which was €180.3 million for the year ended 31 December 2014. During 2014, the Audit Committee considered management's position that certain items warranted this presentation in order to help users of the financial statements in their understanding of the results for the period. In particular, at the Audit Committee on 11 December 2014, the Committee considered management's classification of the once-off pension contribution of €190.7 million (arising as a result of the IASS solution) and the post retirement income streaming past service credit of €21.7 million as exceptional items for the purposes of IAS 1 in respect of the financial year ended 31 December 2014. See Note 10.

After considering the quantum and nature of the items in question, and consistency with Aer Lingus' reporting policy and the principles used in prior years to classify items as exceptional, at the Audit Committee meeting on the 11 December 2014, the Committee was satisfied with the treatment of these items as exceptional items in the consolidated financial statements.

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

The financial instruments 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 are classified as cash flow hedging reserves. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income until the transaction happens.

During 2014, there has been a loss in the cash flow hedging reserve shown in the Statement of other comprehensive income of €68.8 million due to the decreases in the underlying price of fuel and the levels of fuel hedging. Therefore, at 31 December 2014, the balance of cash flow hedging reserve was a loss of approximately €64.7 million (net of deferred tax) compared to a profit of €4.1 million at 31 December 2013.

The Committee members considered the above at the Audit Committee meeting on 19 February 2015 and are satisfied with the treatment of the hedging loss during the year ended 31 December 2014.

Taxation – valuation of deferred tax assets
Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

At 31 December 2014, the Group had a deferred tax asset of €22.9 million (see Note 31) as compared to a deferred tax liability of €3.9 million at 31 December 2013. The primary driver for this year on year movement is the recognition of a deferred tax asset of €23.8 million which arose as a result of the recognition of the €190.7 million provision relating to the once-off pension contribution in 2014.

The Audit Committee considered the underlying forecasts of future taxable profits updated for the 2015 budget. In line with the accounting standard IAS 12 *Income Taxes*, the Group can recognise the deferred tax asset as management have projected that taxable profit will be available in the future against which the temporary difference can be utilised and therefore that this asset is recoverable. Based on this assessment, at the Audit Committee meeting on 11 December 2014, the Committee members agreed with management's position that it is appropriate to recognise a deferred tax asset in this respect.

In addition, during the year, the Committee received an update on tax matters of the Group generally to satisfy ourselves of our overall compliance in all jurisdictions.

Aircraft maintenance provisions – presentation, completeness and valuation
Aer Lingus has a significant amount of maintenance costs on major airframe and engine maintenance checks. These costs 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. For aircraft held under operating leases, a provision is made on a monthly basis (See Note 28). At 31 December 2014, the amount of the provision was €63.3 million (2013: €42.6 million). Management estimated the amount to be provided for using a calculation which is prepared by operations personnel. This calculation has a number of variables but primarily focuses on the number of leased aircraft, the timing and nature of the next overhaul activity required, the planned lease return dates and conditions and the likely utilisation of the aircraft. This provision will be utilised as the major airframe and engine overhauls take place.

The Audit Committee examined the complexities of this estimation in the Audit Committee meeting on 19 February 2015 and after due challenge became satisfied that the provision is management's best estimate.

Risk of fraud in revenue recognition or management over-ride of controls
The Audit Committee noted that, in the conduct of their audit work, the external auditors are required by auditing standards to focus on the risk of fraud in revenue recognition and the risk of management over-ride of internal controls. However, the Audit Committee is satisfied that there are adequate controls in place in order to mitigate the risk of material misstatement in the financial statements due to fraud in revenue recognition and that there was no evidence of management over-ride of controls in 2014. On this basis, these two matters were not considered significant issues by the Audit Committee with regard to financial reporting.

The FRC's guidance to audit committees (as applicable to the 2012 version of the UK Corporate Governance Code) also requires that the Audit Committee's report include those matters that have informed its conclusion, and the Board's determination that it is appropriate to adopt the going concern basis of preparation for the 2014 financial statements. In making this determination, the Audit Committee and Board had regard to the Group's five year plan (which includes an assessment of likely capital expenditure on aircraft over the period), the budget for 2015 (which has been approved by the Board), the level and terms of the Group's gross cash balance available to the Group which totalled €935.5 million at 31 December 2014 or €723.8 million when excluding the restricted cash of €211.7 million at 31 December 2014 (of which €190.7 million of this €211.7 million relates to the funds which are being held in escrow for the once-off IASS pension solution contribution).

During 2014, the Company introduced a Group wide anti-fraud policy, which applies to all those who work for Aer Lingus at all levels of the organisation and in any geographical location. At the same time, the existing whistle blower and Good Faith Reporting Policy and Code of Business Ethics were extensively revised and updated and an external, third party managed confidential hotline service introduced, to supplement the normal internal reporting channels. These policies will be reviewed regularly by the Audit Committee, which will also receive periodic reports of any matters reported to the hotline and details of any subsequent investigation. Individuals may also directly contact the Chair of Audit Committee in certain circumstances detailed in the policy, for example where no feedback has been received by an individual who has submitted a report to the hotline, despite repeated follow ups. Members of the Board of Directors may also submit any concerns they have in relation to wrongdoing to the Chair of the Audit Committee, or alternatively to the Chairman of the Board.

Link to remuneration
The Audit Committee considers the response of the Executive Directors and senior management of the Company in respect of issues falling within the terms of reference of the Audit Committee as material to remuneration levels generally and to the award of performance related pay in particular. To that end the Audit Committee has established with the Remuneration Committee a protocol whereby, on an annual basis, the Audit Committee will notify the Remuneration Committee of any internal control or accounting issues it considers material to the work of the Remuneration Committee in determining the remuneration of the Executive Directors and senior management of the Company.

In so notifying the Remuneration Committee, the Audit Committee considers which, if any, matters should be advised to the Remuneration Committee in the context of both (i) matters arising in a given financial year that should be considered in the context of aggregate remuneration levels for that year and (ii) matters arising in a given financial year that should be considered in the context of longer term performance reviews or incentives. The Audit Committee this year determined that there was no requirement to refer any internal control or accounting issue to the Remuneration Committee.

Yours faithfully,

NICOLA SHAW
Chair
Audit Committee

27 March 2015

Independent auditors' report to the members of Aer Lingus Group plc

Report on the financial statements

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, of the state of the group's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- the company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the company's affairs as at 31 December 2014 and of its cash flows for the year then ended; and
- the consolidated and company financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

What we have audited

Aer Lingus Group plc's financial statements comprise:

- the Consolidated and Company statements of financial position as at 31 December 2014;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated and Company statements of cash flows for the year then ended;
- the Consolidated and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

Our audit approach

Overview

Materiality

Overall group materiality: €4 million (2013: €4 million) which represents approximately 5% of operating profit before net exceptional items.

Audit scope

An audit of the complete financial information was conducted on all companies within the Group.

Areas of focus

- Pensions – accounting and disclosure;
- Treasury – presentation, valuation and disclosure;
- Exceptional Items – presentation and disclosure;
- Aircraft Maintenance Provisions – presentation, completeness and valuation; and
- Taxation – valuation of deferred tax assets.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Area of focus	***How our audit addressed the area of focus***
Pensions – accounting and disclosure	
As explained in Note 26 significant deficits in the Irish Airlines (General Employees) Superannuation Scheme "IASS" and the Irish Airlines (Pilots) Scheme "IALP" existed during the year. During the year the Trustees of the IASS agreed a funding proposal with the Pensions Authority whereby the IASS was frozen with effect from 1 January 2015 and all contributions to it ceased. Following shareholder approval the Group agreed to a once-off contribution of €190.7 million to two new Defined Contribution pension schemes for IASS members. Proposals in relation to IALP, which do not require any additional contributions by the Group, were approved as explained in Note 26. We focused on this area due to the significant developments during the year, the number of elements involved and the resulting accounting complexities.	We obtained an understanding of key developments in respect of the IASS for the current year, in particular the Expert Panel Report issued on 16 June 2014, the Circular to Shareholders issued on 18 November 2014 and the conditions related to the once-off payment of €190.7 million. We read relevant background papers and considered the effect of the once-off payment for the financial statements, both in relation to accounting and disclosure. We assessed the impact of the once-off contribution on other post-retirement benefits which are calculated by reference to benefits payable under the IASS. We also considered developments in respect of the IALP and the funding proposal agreed by the Trustees of the IALP and approved by the Pensions Authority on 3 December 2014 which did not require any additional contributions by the Group and developments through to the date of signing of the financial statements. We considered the disclosures in relation to the IASS and IALP including the disclosure of the risk of litigation.

Area of focus	*How our audit addressed the area of focus*
Treasury – presentation, valuation and disclosure	
The Group manages its treasury function and engages in financial risk management using a variety of tools including derivative instruments to hedge exposure to currency, interest rate and commodity risks. In addition the Group holds significant net funds comprising money market deposits and borrowings through finance leases. At 31 December 2014 deposits amounted to €537 million, cash and cash equivalents €194 million, restricted cash €191 million, finance lease obligations €390 million, derivative financial assets €30 million and derivative financial liabilities €118 million while other comprehensive income for the year includes a net charge for cash flow hedges of €69 million. We focused on these balances because of their materiality to the financial position of the Group.	We assessed the processes, procedures and controls in respect of the Group treasury management function. We tested year end reconciliation processes for treasury assets and liabilities and we independently obtained third party confirmations of year end balances. We tested the fair value of derivative financial instruments by reference to observable foreign exchange rates, broker prices or commodity prices; as set out in Note 20 all derivatives are valued in accordance with Level 2 of the fair value hierarchy. We tested the classification of items recognised in the income statement and items recognised in other comprehensive income and tested the balance sheet reconciliations for derivative assets and liabilities. We considered the disclosure of financial assets and liabilities and derivative financial instruments.
Exceptional Items – presentation and disclosure	
The Directors apply an accounting policy which separately discloses items which are considered material and non-recurring and are disclosed by virtue of their size or incidence. Exceptional items for the year ended 31 December 2014 amounted to a charge of €180.3 million. We focused on this area because operating profit before net exceptional items is a key metric when measuring performance and the Directors exercise judgement in assessing the classification of items as exceptional.	We considered the size and nature of the items disclosed as exceptional items and assessed whether the individual items complied with the Group's accounting policy to be separately disclosed as exceptional items. The largest item relates to the once-off payment to the new defined contribution pension schemes for IASS members. We considered the disclosures in relation to exceptional items.
Aircraft Maintenance Provisions – presentation, completeness and valuation	
The Group operates aircraft which are owned or held under finance or operating leases. For aircraft held under operating lease the Group incurs obligations for maintenance costs during the term of the lease as well as costs to meet the contractual return conditions on such aircraft. The calculation of the aircraft maintenance provision for aircraft held under operating leases is subject to measurement uncertainty due to the timing and nature of overhaul activity required and the sensitivity in projected flight hours. Maintenance provisions at 31 December 2014 amounted to €63 million – see Note 28.	We read contracts to understand the contractual obligations for maintenance costs for aircraft held under operating leases. We assessed the maintenance provision model which is prepared on an individual aircraft basis. We tested the calculations with particular emphasis on the variable factors and considered the reasonableness of the assumptions. We challenged the key assumptions which comprise the nature and timing of the overhaul, costings and the usage and deployment of the individual aircraft.
Taxation – valuation of deferred tax assets	
As at 31 December 2014 the Group recognised net deferred tax assets of €23 million. The recovery of deferred tax assets is dependent on the availability of future taxable profits. We focused on this area because the assessment of recovery is based on complex and subjective judgements about the future results of the business.	We evaluated the Directors' forecasts of future taxable profits, including comparing them to the latest Board approved budgets, and we compared actual results to budget as part of our consideration of the accuracy of the forecasting process. We assessed the key assumptions which comprise passenger numbers and yield, price and certain costs such as fuel and airport charges by reference to historical experience and other observable data where appropriate. We reviewed the fleet replacement plan and compared it to the passenger capacity assumptions.

How we tailored the audit scope

The Group is operated and managed as a single operating unit that provides air transportation for passengers and cargo and the Group's flight equipment is deployed through a single route scheduling system. The consolidated financial statements are a consolidation of the principal operating company, Aer Lingus Limited, and a number of wholly owned subsidiaries mainly incorporated in Ireland. An audit of the complete financial information was conducted on all the companies within the Group.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements to be €4 million (2013: €4 million).

We have applied a rate of approximately 5% to operating profit before net exceptional items. We also considered materiality as determined by other benchmarks such as revenue, EBITDAR and profit before tax and €4 million falls in the lower half of the range of the alternative commonly used benchmarks. In deciding that operating profit before net exceptional items was the appropriate benchmark we considered the strong weighting given to operating profit before net exceptional items by industry norms and practice as indicated by market guidance, brokerage reports, industry commentaries and communications with the investor community.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €200,000 (2013: €200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules of the Irish Stock Exchange we are required to review the Directors' statement, set out on page 53, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the consolidated and company financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Acts 1963 to 2013 opinions

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

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or – is otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 45, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 73-74, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosure of Directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Listing Rules of the Irish Stock Exchange we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

Other matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Company.
- The Company statement of financial position is in agreement with the books of account.
- The net assets of the Company, as stated in the Company Statement of financial position, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 45, the Directors are responsible for the preparation of the consolidated and company financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the consolidated and company financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, 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 these opinions, 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Craig
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

27 March 2015

Consolidated income statement
Year ended 31 December

	Note	**2014**	2013
		€'000	€'000
Revenue	*6*	**1,556,878**	1,425,115
Operating expenses (before net exceptional items)			
Staff costs	*12*	**300,636**	277,353
Depreciation and amortisation		**89,952**	82,927
Aircraft operating lease costs		**65,691**	45,182
Fuel and oil costs		**378,062**	357,338
Maintenance expenses		**71,649**	68,419
Airport charges		**315,149**	298,678
En-route charges		**61,594**	60,689
Distribution charges		**54,244**	46,978
Ground operations, catering and other operating costs		**152,889**	126,995
Other gains - net	*8*	**(4,958)**	(588)
		1,484,908	1,363,971
Operating profit before net exceptional items		**71,970**	61,144
Net exceptional items	*10*	**(180,338)**	(17,354)
Operating (loss)/profit after net exceptional items		**(108,368)**	43,790
Finance income	*11*	**9,934**	10,837
Finance expense	*11*	**(13,686)**	(15,075)
		(3,752)	(4,238)
Share of profit of joint venture	*17*	**611**	6
(Loss)/Profit before taxation		**(111,509)**	39,558
Income tax credit/(charge)	*13*	**15,710**	(5,470)
(Loss)/Profit for the period		**(95,799)**	34,088
(Loss)/Profit attributable to:			
- owners of the parent		**(95,799)**	34,088
(Loss)/Profit per share attributable to the owners of the parent			
(expressed in cent per share)			
- basic and diluted	*14*	**(18.0)**	6.4

The Notes on pages 90 to 139 form an integral part of these financial statements.

BERNARD BOT
Director

STEPHEN KAVANAGH
Director

Approved by the Board of Directors on 27 March 2015.

Consolidated statement of comprehensive income
Year ended 31 December

	Note	**2014**	2013
			As restated[1]
		€'000	€'000
(Loss)/Profit for the period		**(95,799)**	34,088
Other comprehensive (loss)/income			
Items which may be reclassified to the income statement			
Available-for-sale reserve			
- Amortisation of available-for-sale reserve	*11*	**(134)**	(161)
- Deferred tax impact		**17**	20
		(117)	(141)
Cash flow hedges			
- Fair value losses		**(85,266)**	(8,366)
- Deferred tax impact		**10,658**	1,046
- Transfer to fuel costs		**(7,454)**	255
- Deferred tax impact		**932**	(32)
- Transfer to other gains - net		**14,146**	4,667
- Deferred tax impact		**(1,768)**	(583)
		(68,752)	(3,013)
Retranslation reserve			
- Amounts charged to retranslation reserve	*17*	**1,244**	(481)
Total of items which may be reclassified to income statement		**(67,625)**	(3,635)
Items that will not be reclassified to the income statement			
(Loss)/gain on re-measurements of post employment benefit obligations:			
- Effect of changes in demographic assumptions		**(568)**	1,487
- Effect of changes in financial assumptions		**(10,043)**	3,173
- Effect of experience adjustments		**1,256**	3,741
- Deferred tax impact		**1,169**	(1,050)
Total of items which will not be reclassified to the income statement		**(8,186)**	7,351
Total other comprehensive (loss)/income		**(75,811)**	3,716
Total comprehensive (loss)/gain attributable to:			
- owners of the parent		**(171,610)**	37,804

[1] See Basis of Preparation - Note 2 (iii)

The Notes on pages 90 to 139 form an integral part of these financial statements.

Consolidated statement of financial position
As at 31 December

		As at 31 December 2014	As at 31 December 2013 As restated[1]
ASSETS	*Note*	**€'000**	€'000
Non-current assets			
Property, plant and equipment	*15*	**644,895**	689,447
Intangible assets	*16*	**23,074**	14,444
Investment in joint venture	*17*	**15,788**	13,933
Loans and receivables	*19*	**-**	11,742
Derivative financial instruments	*20*	**2,168**	1,268
Trade and other receivables	*22*	**43,532**	43,278
Deferred tax asset	*31*	**22,950**	-
Deposits	*23*	**95,408**	101,752
		847,815	875,864
Current assets			
Inventories	*21*	**3,245**	2,536
Loans and receivables	*19*	**13,770**	31,887
Derivative financial instruments	*20*	**27,929**	10,125
Trade and other receivables	*22*	**85,019**	65,328
Deposits	*23*	**442,021**	563,229
Restricted deposit - pension escrow	*23*	**190,700**	-
Cash and cash equivalents	*23*	**193,769**	188,805
		956,453	861,910
Total assets		**1,804,268**	1,737,774
EQUITY			
Called-up share capital	*32*	**26,702**	26,702
Share premium	*33*	**359,449**	359,449
Other reserves	*33*	**(60,293)**	7,126
Retained earnings		**334,702**	459,490
Total equity		**660,560**	852,767
LIABILITIES			
Non-current liabilities			
Trade and other payables	*24*	**1,863**	-
Finance lease obligations	*25*	**297,608**	363,277
Derivative financial instruments	*20*	**18,850**	215
Post employment benefit obligations	*27*	**19,566**	28,254
Provisions for other liabilities and charges	*28*	**76,328**	57,627
Deferred tax liability	*31*	**-**	3,864
		414,215	453,237
Current liabilities			
Trade and other payables	*24*	**328,431**	284,070
Bank overdraft	*23*	**155**	-
Finance lease obligations	*25*	**92,573**	114,321
Derivative financial instruments	*20*	**99,584**	14,274
Provisions for other liabilities and charges	*28*	**18,050**	19,105
Provision for IASS solution - once-off pension contribution	*29*	**190,700**	-
		729,493	431,770
Total liabilities		**1,143,708**	885,007
Total equity and liabilities		**1,804,268**	1,737,774

[1] See Basis of Preparation - Note 2 (ii)

The Notes on pages 90 to 139 form an integral part of these financial statements.

BERNARD BOT	STEPHEN KAVANAGH
Director	Director

Approved by the Board of Directors on 27 March 2015.

Company statement of financial position

As at 31 December

		As at 31 December 2014	As at 31 December 2013
ASSETS	*Note*	**€'000**	€'000
Non-current assets			
Investment in subsidiary undertakings	*38*	**252,281**	250,330
Current assets			
Amounts due from subsidiary undertakings	*22*	**645,383**	666,738
Cash and cash equivalents	*23*	**295**	8
		645,678	666,746
Total assets		**897,959**	917,076
EQUITY			
Called-up share capital	*32*	**26,702**	26,702
Share premium	*33*	**359,449**	359,449
Share based payment reserve	*33*	**5,540**	6,315
Retained earnings		**505,973**	524,610
Total equity		**897,664**	917,076
LIABILITIES			
Non-current liabilities			
Trade and other payables	*24*	**295**	-
Total liabilities		**295**	-
Total Equity and Liabilities		**897,959**	917,076

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 is a loss of €2,000 (2013: profit of €27,000).

The Notes on pages 90 to 139 form an integral part of these financial statements.

BERNARD BOT
Director

STEPHEN KAVANAGH
Director

Approved by the Board of Directors on 27 March 2015.

Consolidated statement of changes in equity

All movements are attributable to the owners of the parent

	Called-up share capital	Share Premium	Capital conversion reserve fund	Capital redemption reserve fund	Cash flow hedging reserve	Available-for-sale reserve	Treasury shares	Share based payment reserve	Retranslation reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2013	26,702	510,605	5,048	343,796	7,069	264	(5,615)	5,865	-	(59,023)	834,711
Profit for the period	-	-	-	-	-	-	-	-	-	34,088	34,088
Other comprehensive (loss)/income for the year (as restated[1])	-	-	-	-	(3,013)	(141)	-	-	(481)	7,351	3,716
Total comprehensive (loss)/income for the year (as restated[1])	-	-	-	-	(3,013)	(141)	-	-	(481)	41,439	37,804
Exercise of share awards	-	-	-	-	-	-	2,728	(3,607)	-	(1,640)	(2,519)
Share based payment reserve	-	-	-	-	-	-	-	3,219	-	-	3,219
Deferred tax impact	-	-	-	-	-	-	-	838	-	-	838
Dividends paid (4 cent per share)	-	-	-	-	-	-	-	-	-	(21,286)	(21,286)
Capital reduction	-	(151,156)	(5,048)	(343,796)	-	-	-	-	-	500,000	-
Balance at 31 December 2013	26,702	359,449	-	-	4,056	123	(2,887)	6,315	(481)	459,490	852,767
Balance at 1 January 2014	**26,702**	**359,449**	-	-	**4,056**	**123**	**(2,887)**	**6,315**	**(481)**	**459,490**	**852,767**
Loss for the period	-	-	-	-	-	-	-	-	-	(95,799)	(95,799)
Other comprehensive (loss)/income for the year	-	-	-	-	(68,752)	(117)	-	-	1,244	(8,186)	(75,811)
Total comprehensive (loss)/income for the period	-	-	-	-	(68,752)	(117)	-	-	1,244	(103,985)	(171,610)
Exercise of share awards	-	-	-	-	-	-	981	(2,726)	-	516	(1,229)
Share based payment reserve	-	-	-	-	-	-	-	1,951	-	-	1,951
Dividends paid (4 cent per share)	-	-	-	-	-	-	-	-	-	(21,319)	(21,319)
Balance at 31 December 2014	**26,702**	**359,449**	**-**	**-**	**(64,696)**	**6**	**(1,906)**	**5,540**	**763**	**334,702**	**660,560**

[1] See Basis of Preparation - Note 2 (iii)

The Notes on pages 90 to 139 form an integral part of these financial statements.

Company statement of changes in equity

	Called-up share capital	Share Premium	Capital conversion reserve fund	Capital redemption reserve fund	Share based payment reserve	Retained earnings	Total equity
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance at 1 January 2013	26,702	510,605	5,048	343,796	5,865	42,342	934,358
Profit for the year ended 31 December 2013, being total comprehensive income for the year	-	-	-	-	-	27	27
Exercise of share awards	-	-	-	-	(3,607)	3,607	-
Share based payment reserve	-	-	-	-	4,057	-	4,057
Dividends paid (4 cent per share)	-	-	-	-	-	(21,366)	(21,366)
Capital reduction	-	(151,156)	(5,048)	(343,796)	-	500,000	-
Balance at 31 December 2013	26,702	359,449	-	-	6,315	524,610	917,076
Balance at 1 January 2014	**26,702**	**359,449**	-	-	**6,315**	**524,610**	**917,076**
Loss for the year ended 31 December 2014, being total comprehensive income for the year	-	-	-	-	-	(2)	(2)
Exercise of share awards	-	-	-	-	(2,726)	2,726	-
Share based payment reserve	-	-	-	-	1,951	-	1,951
Dividends paid (4 cent per share)	-	-	-	-	-	(21,361)	(21,361)
Balance at 31 December 2014	**26,702**	**359,449**	**-**	**-**	**5,540**	**505,973**	**897,664**

The Notes on pages 90 to 139 form an integral part of these financial statements.

Consolidated statement of cash flows

Year ended 31 December

	Note	**2014**	2013
		€'000	€'000
Cash flows from operating activities			
Cash generated from operations	*35*	**174,923**	101,088
Income tax paid		**(66)**	(19)
Net cash generated from operating activities		**174,857**	101,069
Cash flows from investing activities			
Purchases of non-current assets		**(55,278)**	(33,902)
Investment in joint venture		**(1,428)**	(10,715)
Proceeds from sales of property, plant and equipment		**-**	2,535
Decrease/(Increase) in deposits		**153,069**	(98,066)
Increase in deposits - pension escrow		**(190,700)**	-
Interest received		**5,957**	3,652
Net cash used in investing activities		**(88,380)**	(136,496)
Cash flows from financing activities			
Repayment of finance lease obligations		**(122,179)**	(47,043)
Interest paid		**(6,772)**	(8,116)
Dividends paid		**(21,319)**	(21,286)
Decrease in loans and receivables		**34,316**	-
Net cash used in financing activities		**(115,954)**	(76,445)
Net decrease in cash, cash equivalents and bank overdrafts		**(29,477)**	(111,872)
Cash, cash equivalents and bank overdrafts at 1 January		**188,805**	312,939
Exchange gains on cash, cash equivalents and bank overdrafts		**34,286**	(12,262)
Cash, cash equivalents and bank overdrafts at 31 December	*23*	**193,614**	188,805

The Notes on pages 90 to 139 form an integral part of these financial statements.

Company statement of cash flows
Year ended 31 December

	Note	**2014**	2013
		€'000	€'000
Cash flows from operating activities	*35*	**291**	(4)
Net cash used in operations		**291**	(4)
Cash flows from investing activities			
Interest received		**-**	31
Increase in/(repayment) of amounts owed by subsidiary undertaking		**21,357**	(62,856)
Dividends paid		**(21,361)**	(21,366)
Net cash used in investing activities		**(4)**	(84,191)
Net increase/(decrease) in cash, cash equivalents		**287**	(84,195)
Cash, cash equivalents at 1 January		**8**	84,203
Cash and cash equivalents at 31 December	*23*	**295**	8

The Notes on pages 90 to 139 form an integral part of these financial statements.

1 General information

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

These financial statements were authorised for issue by the Board of Directors on 27 March 2015. The financial statements are for the Group and Company for the financial years ended 31 December 2014 and 31 December 2013. The principal companies within the Group during the years ended 31 December 2014 and 31 December 2013 are disclosed in Note 18.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Aer Lingus Group plc, which are presented in euro and rounded to the nearest thousand (€'000) have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, IFRS Interpretations Committee (IFRS IC) interpretations and the Companies Acts 1963 to 2013 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments. The going concern statements on page 53 form part of the consolidated financial statements. The notes to the consolidated financial statements include the information in the Report of the Remuneration Committee on Directors' Remuneration that is described as forming part of the financial statements.

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 available knowledge of the amount, event or actions, actual results may ultimately differ from those estimated. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

Except as disclosed below, the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the Group's preparation of the annual consolidated financial statements for the year ended 31 December 2013.

(i) Adoption of IFRS and IFRS Interpretations Committee ("IFRS IC") Interpretations

The following new standards, amendments to existing standards and interpretations have been adopted from 1st January 2014. There has been no impact to the reported results, statement of financial position or disclosures as a result of their application. These standards are:

- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*
- IAS 27 (revised 2011), *Separate financial statements*
- IAS 28 (revised 2011), *Investments in associates and joint ventures*

IFRS 10, *Consolidated Financial Statements*, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It replaces IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 11, *Joint Arrangements*, establishes principles for financial reporting by the parties to a joint arrangement. It replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 12, *Disclosure of Interests in Other Entities*, combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. These standards did not have a material effect on the Group's reported financial position or performance. The Group has expanded certain disclosures in relation to its subsidiaries as required.

IAS 27, *Separate Financial Statements* and IAS 28, *Investment in Associates and Joint Ventures* have been revised. IAS 27 as amended deals with the requirements for separate financial statements. Entities preparing separate financial statements are required to account for investments in subsidiaries, associates, and jointly controlled entities either at cost, or in accordance with IFRS 9, *Financial Instruments*. IAS 28 describes the application of the equity method to investments in joint ventures and associates. The revisions to these standards did not have a material effect on the Group's reported financial position or performance.

- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities
- Amendment to IFRS 10, 11 and 12 on transition guidance
- Amendment to IAS 32, *Financial instruments: Presentation*, on asset and liability offsetting
- Amendment to IAS 36, *Impairment of assets* on recoverable amounts disclosures
- Financial Instruments: Recognition and Measurement Amendment to IAS 39, *Novation of derivatives*
- IFRIC 21, *Levies*

The following new standards, amendments to existing standards and interpretations effective for annual periods beginning on or after 1 January 2015 have been issued prior to the date of issuance of the Group's financial statements but have not been adopted early by the

Group. The Directors assessment of the impact of the new standards listed below, on the reported results, statement of financial position and disclosures as a result of their adoption in future periods, is ongoing.

Topic	Key requirements	Effective date
IFRS 9, *Financial Instruments* ("IFRS 9") (subject to EU endorsement)	In July 2014, the IASB published the complete version of IFRS 9, *Financial Instruments*, which replaces the guidance in IAS 39. It has been completed in a number of phases and includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the incurred loss impairment model used today and hedge accounting amendments released in November 2013. Subject to EU endorsement, the new standard is effective for accounting periods beginning on or after 1 January 2018 (with retrospective application required) and early application is permitted. The Group has not yet completed its assessment of the impact of IFRS 9.	1 January 2018
IFRS 15, *Revenue from contracts with customers* ("IFRS 15") (subject to EU endorsement)	IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 sets out a five step approach for use in applying this principle. The new standard replaces IAS 18, *Revenue* and IAS 11, *Construction contracts* and related interpretations. Subject to EU endorsement, the standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.	1 January 2017

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material effect on the consolidated financial statements or they are not currently relevant for the Group.

(ii) Reclassification adjustment - offsetting balance in trade and other receivables/payables

At 31 December 2013, the settlement of a prepaid trade receivable (€8.2 million) was recorded in trade payables and the corresponding trade receivable and trade payable balances were separately reported and not offset. The absence of this offset meant that both current trade and other receivables and payables were overstated by €8.2 million as at 31 December 2013. As both items relate to the same transaction, the 31 December 2013 statement of financial position has been reclassified and the amounts offset. This reclassification has had no impact on the income statement, statement of comprehensive income, statement of changes in equity, statement of cashflows or earnings per share.

The impact on the statement of financial position as at 31 December 2013 is shown below:

As at 31 December 2013

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Trade and other receivables - current	73,526	(8,198)	65,328
Trade and other payables - current	292,268	(8,198)	284,070

(iii) Reclassification adjustment – retranslation of investment in joint venture

At 31 December 2013, the retranslation of the Group's interest in the joint venture was not presented within the statement of comprehensive income. The Group's interest in the joint venture is a foreign operation as per IAS 21, *The effects of changes in foreign exchange rates*. The statement of comprehensive income for the year ended 31 December 2013 has been restated to reflect the retranslation of the Group's interest in joint venture within other comprehensive income as set out below. The restatement has no impact on the income statement, statement of financial position, statement of cashflows or earnings per share.

For the year ended 31 December 2013

	As previously reported	Adjustments	As restated
	€'000	€'000	€'000
Other comprehensive income	4,197	(481)	3,716
Total comprehensive income	**38,285**	**(481)**	**37,804**

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated. When necessary, the amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement in Propius Holdings Limited and has determined it to be a joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and the movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the joint venture's reporting currency is other than the Group's reporting currency, the effect of retranslating the Group's interest in the closing balance sheet of the joint venture is charged or credited directly to equity, within the "retranslation reserve".

The Group's interest in the net assets of its joint venture is reported as 'Investment in joint venture' in the Consolidated statement of financial position and its interest in its result is included in the Consolidated income statement, below operating profit.

See Note 17 for further details on the Group's investment in its Joint Venture.

2.3 Segment reporting

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

2.4 Foreign currency translation

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

(b) Transactions and balances

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

Exchange rates prevailing at reporting date are set out below:

	USD	STG
31 December 2014	1.22	0.78
31 December 2013	1.37	0.83

Average exchange rates during the year were as follows:

	USD	STG
2014	1.34	0.81
2013	1.33	0.85

2.5 Property, plant and equipment

Property, plant and equipment is stated at 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 or losses on qualifying cash flow hedges of foreign currency taken out to fund the purchase 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 when 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.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives	Residual values[1]
Flight equipment		
Aircraft fleet and major spares [2]		
- short haul aircraft	18 years	10% of cost
- long haul aircraft	20 years	10% of cost
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

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

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

2.6 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis. Costs that are directly associated with the production of identifiable software products controlled by the Group, and which are assessed as likely to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These capitalised costs 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.

In 2011, as part of the surrender of the lease over its former head office building, the Group acquired a ten year license for the use of certain property owned by the Dublin Airport Authority. This license is held at cost and amortised over the ten year license term.

Landing rights are capitalised at fair value at the date of purchase. Subsequently they are accounted for at cost less any accumulated impairment losses. Landing rights are considered to have an indefinite life as they will remain available for use without restriction or limitation on the usage period provided that minimum utilisation requirements are met and therefore they are not amortised. The carrying value of these rights is subject to impairment testing annually or when events or changes in circumstances indicate that carrying values may not be recoverable.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite lived assets are tested for impairment at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have been impaired are reviewed for possible reversal of the impairment at each reporting date. Refer to Note 15 and Note 16 for further details.

2.8 Financial assets

2.8.1 Classification

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

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

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

2.8.2 Recognition and measurement

Purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Purchases are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. They are subsequently carried at fair value with changes in fair value taken to "Other gains – net". Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets through the income statement category are presented in the income statement within "Other gains – net" in the period in which they arise.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts which is not contingent on a future event and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously, which is enforceable, as well as in the normal course of business, in the event of default or of insolvency or bankruptcy of any of the counterparties. See Note 5.4 for the disclosures in this respect.

2.10 Impairment of financial assets

Assets carried at amortised cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it as a lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; and
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

Impairment testing of trade receivables is described in Note 2.14.

2.11 Emission Allowances

Emission allowances received free of charge are recognised at nil cost on date of grant. Allowances purchased subsequently are recognised at cost. Purchased allowances continue to be carried at original cost, and are not revalued or amortised but are tested for impairment where indicators exist that the carrying value may not be recoverable. Liabilities in respect of emission obligations are measured as the best estimate of the further expenditure required to settle the present obligation at the reporting date.

2.12 Derivative financial instruments and hedging activities

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in shareholders' equity are shown in Note 33. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

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

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

(b) Cash flow hedge

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

Amounts accumulated in equity are reclassified to the statement of financial position or income statement in the periods when the hedged item affects the statement of financial position or income statement (for example, when the forecast sale that is hedged takes place). They are included under the relevant caption in the consolidated financial statements, i.e. fuel hedges in "fuel and oil costs" caption and foreign exchange hedges within the captions "Other (gains)/losses – net" or "property plant and equipment".

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

2.13 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.

2.14 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. Trade receivables are classified as current assets if they are expected to be recovered within 12 months or less. If not, they are classified as non-current assets.

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

2.15 Cash and cash equivalents and deposits

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

Deposits with original maturities of less than three months are classified as cash and cash equivalents. Deposits with an original maturity of more than 3 months are classified as current assets if maturing within 12 months of the end of the reporting period and otherwise as non current assets.

2.16 Share capital

Ordinary shares issued 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 received.

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

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within 12 months or less from the end of the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.18 Borrowings

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

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

2.19 Current and deferred income tax

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

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

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

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

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

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

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

2.20 Employee benefits

Post employment benefit obligations
The Group companies operate various pension schemes. The schemes are generally funded through payments to trustee-administered funds. The Group contributes to both defined benefit and defined contribution plans.

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.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses (remeasurements) are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in other comprehensive income.

The discount rate applied by the Group in determining the present value of the schemes' liabilities is determined by reference to market yields at the reporting date, on high quality corporate bonds of a currency and term consistent with the currency and term of the associated post employment benefit obligation. Where a deep market for high quality corporate bonds of a term consistent with the post retirement obligations of a particular scheme does not exist, a rate which is extrapolated, (with assistance from actuarial experts), from available high quality corporate bonds of shorter maturities is used.

Past service costs/credits are recognised immediately as an expense at the earlier of the following dates (a) when a plan amendment or curtailment occurs; and (b) upon recognition of related restructuring costs or termination benefits.

The post employment benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs/credits and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service costs/credits, plus the present value of available refunds and reductions in future contributions to the scheme.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates; (a) when the Group can no longer withdraw the offer of these benefits; and (b) when the Group recognises costs for a restructuring which is within the scope of IAS 37 and involves the payment of termination benefits.

2.21 Share-based payment

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

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

Non-market vesting conditions are included in assumptions about the number of share awards and options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the entity revises its estimates of the number of share awards and options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium where new shares are issued to satisfy awards or options. Where treasury shares (see Note 2.16) are used to satisfy the exercise of vested share-based compensation awards, the cost of the shares used to satisfy the awards is credited from treasury shares, with an offsetting entry to share based payment reserves.

The grant by the Company of awards and options over its equity instruments to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured at the grant date, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity.

2.22 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation, and;
- the amount is capable of reliable estimation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount 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 a finance expense.

Provisions are made 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 reflect the cost rates expected to apply at the time the work is carried out. Provisions for costs to meet the contractual end of lease return conditions are also included. The actual cash outflow of the overhauls is charged against the provision when incurred. Any residual balance is transferred to the income statement.

Routine maintenance is expensed as incurred.

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. Provision for termination benefits that are not part of a restructuring plan are recognised when the entity can no longer withdraw the offer of those benefits.

2.23 Frequent Flyer Programme

The Group maintains a loyalty points programme, the Gold Circle Club, which allows customers to accumulate points when they purchase flights. The points can be redeemed for free flights, products and services with Aer Lingus and its partners, subject to a minimum number of points being obtained. In accounting for this programme, consideration received is allocated between the flights sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis.

The fair value of the points issued is deferred and recognised as passenger revenue when the points are redeemed. Unclaimed loyalty points are recognised in the income statement on their expiration.

2.24 Revenue recognition

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

Revenue comprises the fair value of consideration received or receivable for the sale of the Group's services in the ordinary course of the Group's activities, and can be divided into scheduled passenger, cargo, ancillary and other 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, but exclusive of applicable government taxes including taxes levied by governments for travel to and from their respective countries and sales taxes such as VAT. The point of recognition differs according to the various revenue streams as set out below:

(a) *Revenues*

Amounts in respect of transportation of passengers and cargo (and related recoverable charges and fees) are deferred and are not recognised as revenue until the point at which the passenger or cargo has flown. The value of bookings made for which transportation has not been provided at the reporting date is included in "trade and other payables" under the caption of "ticket sales in advance". Expired tickets are recognised as revenue using estimates based on historical trends.

Ancillary revenues are recognised in the income statement in the period in which the associated services are provided. Fees charged for bags and seat selection are recognised when the passenger has flown. Fees charged for any changes to flight tickets are recognised as revenue immediately.

Other revenues are recognised in the income statement in the period in which the associated services are provided. Revenues arising from the Group's franchise agreement with Stobart Air (formerly Aer Arann) are recognised on a net (as agent) basis with the agreed franchise fee reported within "Other revenue". Revenues arising from the Groups frequent flyer programme are also reported within ''Other revenue''.

(b) *Lessor accounting*

The Group acts as an operating lessor of aircraft, including crew and other services. Amounts in respect of these leases are billed in advance and recorded as deferred revenue. Revenue and costs are recognised as the services are provided, with the costs associated with this revenue recognised within the relevant income statement categories (staff costs, maintenance, depreciation, aircraft hire and overheads). Revenue is recorded within other revenues.

(c) *Interest income*

Interest income is accrued by reference to the principal outstanding using the effective interest rate applicable.

(d) *Dividend income*

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

2.25 Leases

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

Leases of aircraft where the Group takes on substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased aircraft and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in "finance lease obligations". 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.

2.26 Exceptional items

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

2.27 Dividend distribution

Dividends to the Company's shareholders are recognised as liabilities in the Company and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Critical accounting estimates and judgements

Except as disclosed in Note 2.1, the accounting policies adopted are consistent with those of the previous financial year. The Group believes that of its significant accounting policies and estimates, the following may involve a higher degree of judgement and complexity:

(a) Provisions
The Group makes provisions for legal and constructive obligations which are outstanding at the reporting date. These provisions are made based on historical or other relevant information, adjusted for recent trends where appropriate. However, provisions represent estimates of the financial costs of events that may not occur for some years. The basis for these estimates are reviewed and updated at least annually and where information becomes available that may give rise to a material change. Measurement uncertainty associated with aircraft maintenance provisions also arises from the timing and nature of overhaul activity required, lease return dates and conditions, and likely utilisation of the aircraft. As a result of this and the level of uncertainty attaching to the final outcomes, the actual results may differ significantly from those estimated. Refer to Note 28 for further details.

(b) 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. In addition, indefinite lived assets are also reviewed for impairment annually at each reporting period end. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As this assessment involves long term projections which may not be realised, this is an area of judgement for management.

(c) Recoverability of deferred tax assets
The Group recognises tax assets where it is probable that those assets will be recovered. The assessment of the recoverability of deferred tax assets involves significant judgement. The main deferred tax asset recognised by the Group relates to unused tax losses. The Directors assess the recoverability of tax losses by reference to future profitability and tax planning, including fleet management decisions. Refer to Note 31 for further detail.

(d) Share based payments
The determination of the fair value of awards under the long term incentive plan, and of the share options and awards granted to the CEO involve the use of judgement and estimates. Their fair values have been estimated using binomial lattice or Monte Carlo simulation models. Refer to Note 33 for further detail.

(e) Fair value of derivatives and other financial instruments
The fair value of financial instruments that are not traded in active markets (for example, "over the counter" derivatives) is determined using valuation techniques. The Group exercises judgement in selecting valuation methods and makes assumptions that are mainly based on observable market data and conditions existing at each reporting date. The specific valuation techniques used to value financial instruments are set out in Note 20. Further judgement is exercised by management in considering the probability of occurrence of underlying hedge transactions, in particular the likelihood and timing of future fuel, US$ and aircraft purchases.

(f) Estimation of residual values of aircraft
The Group has determined the residual values of its aircraft as being 10% of original cost. The Group periodically examines its estimate of residual values in light of results of actual aircraft disposals and changing market conditions. Refer to Note 15 for further detail.

(g) Post employment benefits – Irish Airlines (General Employees) Superannuation Scheme and Irish Airlines (Pilots') Superannuation Scheme (collectively the "Irish pension schemes")
As the provisions of the trust deeds governing these schemes are such that no changes to the contribution rates are possible without the prior consent of Aer Lingus Limited, this company has concluded that it has no obligation, legal or constructive, to increase its contributions beyond those levels. As such, these schemes have been accounted for as defined contribution schemes under the provisions of IAS 19, *Employee Benefits (Revised) ("*IAS 19R"), and, as a result, any surplus or deficit in the schemes is not recognised in the statement of financial position of Aer Lingus Limited and the Consolidated statement of financial position of Aer Lingus Group plc.

If any legal or constructive obligation to vary Aer Lingus Limited's contributions based on the funding status of the schemes were to arise, IAS 19R would require Aer Lingus Limited (and the consolidated financial statements of Aer Lingus Group plc) to include any pension fund surplus or deficit on its statement of financial position and reflect any period on period movements in their income statement or the statement of comprehensive income. Refer to Note 26 for further detail.

4 Going Concern

After making enquiries, considering the net cash available at the reporting date and considering the projections in the Group's 2015 budget and five year plan, 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.

5 Financial risk management

5.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The main currency exposures result from a structural trading deficit in US$ and a surplus in Sterling. A large proportion of the Group treasury function's work in relation to foreign exchange rate risk relates to the management of the Group's cashflow exposures. Significant currency exposures are managed for the current and future financial years on a systematic, amortising basis within pre-set bands. The US$ deficit arises because the US$ costs for items such as fuel and aircraft rentals exceed US$ sales in the US. The Sterling surplus arises because UK sales exceed Sterling costs. Profits are reduced by a stronger US$ and/or a weaker Sterling.

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

The Group treasury function manages both cashflow exposures and statement of financial position exposures arising from currency risk. The products used by the Group treasury function in managing currency risk are predominantly forward foreign exchange contracts.

Based on the trading deficit in US$ for the year ended 31 December 2014, a 5% weakening of the EUR to USD exchange rate over the year-end rate would result in a reduction in profit of €8.6 million for the year (2013: €8.3 million). Based on the trading surplus in Sterling for the year ended 31 December 2014, a 5% strengthening of the EUR to GBP exchange rate over the year end rate would result in a reduction in profit of €7.2 million for the year (2013: €6.2 million). The impact of such currency movements after taking account of hedging would have been negligible for both 2014 and 2013.

(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 reduce the returns from cash investments.

Overall the Group is in a net cash position. Interest rate exposure on foreign currency debt is managed by placing matching investments, which serve as natural hedges in relation to both interest rate and currency exposures on the debt. In addition to these investments, the Group holds further cash, predominantly in euro, and therefore the major interest rate exposure the Group has is to movements in the euro interest rate. This exposure is actively reviewed and managed. A 1% fall in interest rates based on net surplus cash throughout 2014 would reduce profits by €5.4 million (2013: €4.5 million).

(iii) Commodity price risk

Aviation jet fuel requirements expose the Group to the market volatility of jet fuel prices. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on profitability. The primary policy objective for the management of fuel price exposure in the Group is to reduce the volatility and increase the predictability of future fuel costs in a risk managed and cost effective manner.

The Group treasury function manages fuel price risk within a tightly controlled framework. The Group operates a systematic fuel hedging policy covering a rolling two year period. This hedging policy targets specific cover levels for each period on a rolling basis ranging from 90% cover for the following month to between zero and 5% cover 24 months out. This generates average cover levels of approximately 60% for the next 12 month period (rolling year 1) and 15% for the following 12 months (rolling year 2). Under the policy Group treasury can request Board approval to derogate from this systematic hedging requirement, in event of unusual market conditions. In December 2014, due to the acceleration in falling jet fuel prices, the Group took a decision to increase its hedging position in order to be more closely aligned with the significantly higher hedge ratio of our peers and provide greater certainty on fuel costs. As a result at 31 December 2014, Aer Lingus was 90% hedged for the next 12 month period at an average price per tonne of $830 per metric tonne. This compares with 61% for the corresponding period at 31 December 2013.

The products used by the Group treasury function in managing commodity price risk are predominantly jet fuel swaps. A US $10 increase in the price per tonne of jet fuel in 2014 would have increased fuel costs by approximately $4.8 million, based on usage of 481,000 tonnes, absent hedging (2013: $4.5 million). In light of the Group's hedging strategy, the impact of a US$10 increase in jet fuel per tonne would have been negligible in both 2014 and 2013.

(iv) Carbon Allowances Price Risk

The Group is exposed to market volatility of the price of EU-ETS allowances in respect of the need to purchase the non-free element of annual allowances. The Group treasury function manages this risk by making purchase decisions based on market prices. The entire non-free allowance requirement for 2014 was purchased in advance of the year end. On 21 January 2014, the Transport Committee of the European Parliament voted in favour of extending a 2012 moratorium on the ETS scheme in respect of flights which were not entirely within the EU. Such extension was approved until the end of 2016.

(b) Credit risk

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

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

At 31 December 2014, the Group had a total credit exposure of €1.0 billion (31 December 2013: €0.9 billion) relating to bonds, deposits, cash and derivatives which was spread over 37 (2013: 40) counterparties. Of this €0.8 billion (2013: €0.8 billion) was due to mature within 12 months. The Group does not have any material credit risk arising from the ageing of trade and other receivables (see Note 22).

21% (2013: 32%) of the total credit exposure was held with financial institutions holding long-term credit ratings equivalent to AAA to AA3 (Moody's). 68% (2013: 61%) of the total credit exposure was held with financial institutions holding long term-ratings equivalent to A1 to A2. The remaining 11% (2013: 7%) was held with financial institutions with long-term credit ratings below A2.

(c) Liquidity risk

The principal policy objectives in relation to liquidity are 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 liquidity 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 associated with aircraft acquisitions. All borrowing is undertaken by the Group treasury function. Group policy is to maintain, at all times, cash and/or committed facilities for substantially all of the net forecasted debt repayments for the following 12 months.

At 31 December 2014 the Group had capital commitments of €853.8 million (2013: €797.7 million) of which €849.2 million (2013: €794.6 million) relates to aircraft and equipment. The Group currently expects to finance these commitments with a combination of finance and operating leases.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Trade and other payables excludes ticket sales in advance (excluding taxes and charges).

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
	As restated[1]				As restated[1]
	€'000	€'000	€'000	€'000	€'000
At 31 December 2014					
Finance lease obligations	107,364	40,517	238,877	57,250	444,008
Trade and other payables	177,755	936	927	-	179,618
At 31 December 2013					
Finance lease obligations	114,321	84,264	120,186	158,827	477,598
Trade and other payables	150,939	-	-	-	150,939

[1] The amounts at 31 December 2013 have been restated. See Basis of Preparation - Note 2 (ii)

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis with regards forward foreign currency contracts and on a net basis with regards forward fuel contracts, into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	1-2 years	2-5 years	Total
	€'000	**€'000**	**€'000**	**€'000**
At 31 December 2014				
Forward foreign currency contracts				
Outflow	395,417	40,942	-	436,359
Inflow	410,861	41,093	-	451,954
Forward fuel price contracts				
Net outflow	85,725	20,759	98	106,582
At 31 December 2013				
Forward foreign currency contracts				
Outflow	466,717	25,219	-	491,936
Inflow	453,336	24,920	-	478,256
Forward fuel price contracts				
Net Inflow	9,355	1,248	-	10,603

5.2 Capital Risk Management

The Group's objectives when managing capital (comprising total equity of €660.6 million and net cash of €545.3 million at 31 December 2014) 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 a capital structure which reduces the cost of capital as far as practical.

The Group's dividend policy, set out in May 2012, was to pay a dividend for those years in which the Group made a profit provided a dividend was prudent in the context of the Group's trading performance and prospects.

Aer Lingus paid a dividend per share of four cent in respect of 2013. Given Aer Lingus' improved operating performance in 2014 compared to 2013, the Board has agreed to recommend to shareholders that this increased profitability should be translated into a return of value to shareholders in the form of an increase in the annual dividend from four cent per share (paid in respect of 2013) to five cent per share (payable in respect of 2014). This proposed dividend of five cent per share will be payable to shareholders regardless of whether the proposed IAG offer proceeds. In the event that the IAG offer does proceed, the proposed dividend will equate to the cash dividend of five cent per share which is part of the IAG offer. It is proposed that the dividend would be paid as a final dividend. If approved by shareholders the dividend will be paid in May 2015.

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1	Level 2	Level 3	Total
	€'000	**€'000**	**€'000**	**€'000**
Assets				
Derivative financial instruments	-	30,097		30,097
Liabilities				
Derivative financial instruments	-	118,434	-	118,434

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Assets				
Derivative financial instruments	-	11,393	-	11,393
Liabilities				
Derivative financial instruments	-	14,489	-	14,489

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

Specific valuation techniques used to value financial instruments include:

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

5.4 Master netting arrangements

There are no financial assets and financial liabilities netted and offset against each other on the statement of financial position at the reporting dates. However, certain financial assets and financial liabilities are subject to enforceable master netting arrangements which could create a potential right of offset within the scope of the amendment to IFRS 7, *Offsetting Financial Assets and Financial Liabilities*. These arrangements are contained within ISDA (International Swaps and Derivatives Association) Master Agreements ("ISDA's") and relate to derivative financial instruments only.

Each party to the master netting arrangements has a right of offset between financial assets and financial liabilities where there is an early termination event such as a default or change of ownership of the counterparty. Such events of default include failure to perform obligations or to make prompt payment when due. The right of offset is only enforceable in those situations and as such does not meet the criteria for offset in the statement of financial position, nor is there any intention by the Group or its counterparties to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The carrying value of derivative financial instruments in the statement of financial position would potentially be reduced by approximately €21.9 million (2013: €4.7 million) if all master netting arrangements were enforced (as reflected in the following tables):

Derivative Financial Assets

As at 31 December 2014

	Gross amounts of recognised Financial Assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in balance sheet	Related Amounts Not Offset: Financial Instruments	Related Amounts Not Offset: Cash Collateral Received	Net Amount
	€'000's	€'000's	€'000's	€'000's	€'000's	€'000's
Derivative Financial Assets	30,097	-	30,097	(21,926)	-	8,171

As at 31 December 2013

	Gross amounts of recognised Financial Assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in balance sheet	Related Amounts Not Offset: Financial Instruments	Related Amounts Not Offset: Cash Collateral Received	Net Amount
	€'000's	€'000's	€'000's	€'000's	€'000's	€'000's
Derivative Financial Assets	11,393	-	11,393	(4,664)	-	6,729

Derivative Financial Liabilities

As at 31 December 2014

	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the balance sheet**	**Net amounts of financial liabilities presented in the balance sheet**	**Related Amounts Not Offset**		
				Financial instruments	**Cash Collateral Pledged**	**Net Amount**
	€'000's	**€'000's**	**€'000's**	**€'000's**	**€'000's**	**€'000's**
Derivative Financial Liabilities	118,434	-	118,434	(21,926)	-	96,508

As at 31 December 2013

	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the balance sheet**	**Net amounts of financial liabilities presented in the balance sheet**	**Related Amounts Not Offset**		
				Financial instruments	**Cash Collateral Pledged**	**Net Amount**
	€'000's	**€'000's**	**€'000's**	**€'000's**	**€'000's**	**€'000's**
Derivative Financial Liabilities	14,489	-	14,489	(4,664)	-	9,825

6 Revenue

	2014	2013
	€'000	€'000
Passenger revenue	**1,280,962**	1,170,614
Retail revenue	**186,947**	181,444
Cargo revenue	**46,293**	43,639
Other revenue	**42,676**	29,418
	1,556,878	1,425,115

7 Segment information

Based on the way the Group manages the network and the manner in which resource allocation decisions are made, the Group considers that its operating segments comprise its routes on which passengers and cargo are transported. Having assessed the aggregation criteria contained in IFRS 8, *Operating Segments*, and considering how the Group manages its business and allocates resources, the Group has determined that it has one reportable segment. In particular the Group is managed as a single business unit that provides air transportation for passengers and cargo, which allows the Group to benefit from an integrated revenue pricing and route network. The Group's flight equipment is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker (the Group CEO) evaluates route profitability data, which considers passengers flown across the network, aircraft type and route economics.

Total segment assets exclude investment in joint venture, deferred tax, loans and receivables, deposits and cash and cash equivalents, all of which are managed on a central basis. These are part of the reconciliation to total assets shown in the statement of financial position.

Segment revenue of €1,556.9 million (2013: €1,425.1 million) is wholly derived from external customers. Of this figure, the amount attributable to customers within Ireland was €798.9 million (2013: €782.9 million). Depreciation and amortisation of €90.0 million (2013: €82.9 million) is included in the operating profit reviewed by the chief operating decision maker.

The chief operating decision maker assesses operating segment performance based on a measure of adjusted operating profit before net exceptional items. This measure excludes franchise results, ACMI contract flying business, and post close adjustments arising from the finalisation of the financial statements. Finance income and expense, and share of result of joint venture, are not included in the segmental results reviewed by the chief operating decision maker.

A reconciliation of the reportable segment's operating result as reviewed by the chief operating decision maker to the Group's results as reported in the Income Statement is as follows:

	2014	2013
	€'000	€'000
Adjusted operating profit before net exceptional items for the reportable segment	**62,643**	54,785
Franchise result, contract flying and miscellaneous group level adjustments	**9,327**	6,359
Net exceptional items	**(180,338)**	(17,354)
Operating (loss)/ profit after net exceptional items	**(108,368)**	43,790
Finance income	**9,934**	10,837
Finance expense	**(13,686)**	(15,075)
Share of profit of joint venture	**611**	6
(Loss)/ Profit before income tax	**(111,509)**	39,558

Substantially all of the Group's non-current assets are located in Ireland. The reportable segment's assets are reconciled to total assets as follows:

	2014	2013
		As restated[1]
	€'000	€'000
Total segment assets	**829,862**	826,426
Investments in joint venture	**15,788**	13,933
Loans and receivables	**13,770**	43,629
Deposits	**537,429**	664,981
Restricted deposit - pension escrow	**190,700**	-
Cash and cash equivalents	**193,769**	188,805
Deferred tax asset	**22,950**	-
Total assets per statement of financial position	**1,804,268**	1,737,774

[1] See Basis of Preparation - Note 2 (ii)

During the period additions totalling €54.2 million (2013: €34 million) were made to the reportable segment's non-current assets.

8 Other gains – net

	2014	2013
	€'000	€'000
Net realised losses/(gains) on forward foreign currency contracts	**1,274**	(1,959)
Net foreign exchange realised (gains)/losses on operating activities	**(3,344)**	765
Net foreign exchange unrealised (gains)/ losses on operating activities and forward foreign currency contracts	**(2,888)**	606
	(4,958)	(588)

9 Operating profit before net exceptional items

The operating profit before net exceptional items is stated after charging:

	2014	2013
	€'000	€'000
Depreciation on property, plant and equipment (Note 15)		
- owned	**48,395**	31,753
- held under finance leases	**35,174**	47,678
Amortisation of intangible assets (Note 16)	**6,383**	3,496
Operating lease rentals payable		
- aircraft	**65,691**	45,182
- property	**7,786**	6,926
Auditors' remuneration - Group (excluding Company)		
- audit fee	**330**	330
- other assurance services	**59**	59
- tax advisory services	**132**	193
- other non audit services	**380**	220
Total auditors' remuneration - Group	**901**	802
Auditors' remuneration - Company		
- audit fee	**10**	10
Total auditors' remuneration - Company	**10**	10
Directors' emoluments	**2,384**	2,748

Further information on Directors' emoluments is included in the Report of the Remuneration Committee on Directors' Remuneration on pages 57 to 70.

10 Net 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. The separate reporting of exceptional items helps provide a more useful picture of the Group's underlying performance. An analysis of the amounts presented as exceptional items in these financial statements is given below.

Exceptional items comprise:

	2014	2013
	€'000	€'000
Non-current assets (a)	**-**	1,943
Restructuring and termination cost (b)	**(5,104)**	(13,184)
Professional and legal fees (c)	**(6,208)**	(6,113)
IASS solution - once-off pension contribution (d)	**(190,700)**	-
Post retirement income streaming (e)	**21,674**	-
	(180,338)	(17,354)

(a) Non-current assets

The gain in 2013 represents a profit on disposal of a spare engine (€2.2 million), net of a loss on disposal of other assets of €0.3 million. No such disposals took place in 2014.

(b) Restructuring and termination costs

The 2014 net debit of €5.1 million (2013: debit of €13.2 million) is made up of €3.7 million (2013: €4.3 million) related to restructuring costs and €1.4 million (2013: €8.9 million) related to termination costs (both explained in more detail below).

Restructuring

The 2014 restructuring net debit of €3.7 million includes a credit of approximately €0.6 million arising from a re-measurement of the provision (which was created for downsizing of the Shannon line maintenance) following operational decisions made in 2014 which impacted the original estimates and assumptions in respect of maintenance of Boeing 757 aircraft, a debit for an onerous lease obligation in respect of a hangar in Shannon which is subleased to Transaero (which has entered examinership) of €3.1 million, as well as the costs of eliminating specific functions and roles (debit of €1.2 million).

The 2013 charge includes €1.0 million which arose from the downsizing of the Shannon line maintenance, and a further €1.1 million representing additional costs relating to the conclusion of the Group's Greenfield cost reduction programme. A further charge of €1.1 million related to the costs of outsourcing the Group's HR function, and a further €1.1 million related to other severance costs in respect of other organisational change were also included.

Termination

On 25 April 2013, Aer Lingus launched a voluntary severance programme (the "Programme") for applicants who satisfied certain selection criteria. The target of the Programme was to reduce employee headcount levels by approximately 100 by the end of 2013. As at 31 December 2013, 119 applicants had been accepted and had left employment with Aer Lingus. A further five applicants had formally agreed to participate in the Programme and leave employment with Aer Lingus during 2014. The related severance cost, including provisions for these Programme participants (124 applicants in total), of €8.9 million represents a termination cost under IAS19R and were recognised within the 2013 termination charge above.

During 2014, a further 13 applicants were accepted and have left employment with Aer Lingus and a further 2 applicants had formally agreed to participate in the Programme and will leave employment with Aer Lingus during 2015 (bringing the total number of applicants in this Programme to 139). The related severance cost, including provisions, for these 15 further Programme participants of €1.4 million has been recognised in the 12 months ended December 2014.

Liabilities for unpaid termination benefits at the period end are included within business repositioning provisions (see Note 28).

(c) Professional and legal fees

The amount in 2014 principally relates to advice received in relation to the developments in respect of pension issues (see Note 26). The comparative amount in 2013 includes the balance of bid defence costs associated with the takeover bid from the Group's largest shareholder (Ryanair Holdings plc) which was prohibited by the European Commission on 27 February 2013, as well as costs relating to the negotiation of pension issues and fees relating to the capital reduction exercise.

(d) IASS solution – once-off pension contribution

In December 2014, Aer Lingus shareholders voted in favour of the IASS solution which sought to address issues arising from the funding deficit in the Irish Airlines (General Employees) Superannuation Scheme (the "IASS"). The approval of the IASS solution involved a once-off exceptional charge of €190.7 million in Aer Lingus' consolidated income statement and the recognition of a provision, also with a value of €190.7 million, in the Group's consolidated statement of financial position (see Note 29 for further details).

This once-off pension contribution of €190.7 million has been placed in an escrow structure which has been disclosed as a restricted deposit balance in Aer Lingus' consolidated statement of financial position pending receipt of completed waivers and ultimate disbursement of funds (see Note 23).

(e) Post retirement income streaming

The Group previously recognised a liability in regards to an income streaming arrangement in respect of certain current and former employees who have an elective post-retirement entitlement.

As this liability is calculated by reference to those benefits that would otherwise be payable on retirement under the IASS, following the implementation of the IASS solution this liability has been calculated based on 80% of the coordinated IASS benefit. In addition, IASS benefit accrual has ceased with effect from 1 January 2015. Together, these changes have resulted in a reduction in the reserve as at 31 December 2014. The impact of these changes to the liability have been treated as a past service credit and recognised in the Consolidated income statement in accordance with IAS 19R.

This liability will reduce further and potentially to nil as correctly executed waivers referred to in Note 26 are received. No such correctly executed waivers had been received as at 31 December 2014. See Note 39 'Events after the reporting period' for more details.

11 Finance income and expense

	2014	2013
	€'000	€'000
Finance income		
Interest on cash, cash equivalents and deposits	**7,124**	6,944
Interest income on loans and receivables	**1,532**	1,902
Amortisation of available-for-sale-reserve	**134**	161
Unwinding of discounting on non-current prepayments	**1,144**	1,830
	9,934	10,837
Finance expense		
Interest expense on finance lease obligations	**12,235**	13,442
Net interest expense on post employment benefit obligations	**1,139**	1,159
Unwinding of discounting of provisions	**292**	473
Miscellaneous	**20**	1
	13,686	15,075

12 Employee benefits

The average number of persons (Full Time Equivalents) employed by the Group in the year was 3,766 (2013: 3,615) analysed as follows:

	2014	2013
Operations and administration	**3,715**	3,567
Sales and marketing	**51**	48
	3,766	3,615

The associated payroll costs of these persons were as follows:

	2014	2013
	€'000	€'000
Wages and salaries	**253,050**	230,746
Social welfare costs	**22,916**	21,447
Pension costs (Note 26, 27)	**22,719**	21,941
Share based payments (Note 33)	**1,951**	3,219
	300,636	277,353

Termination benefits paid or payable to staff who left the Group during the year or who were committed to leave at year end are disclosed within Note 10.

13 Income Tax

Income tax (credit)/charge recognised in the Income Statement

	2014	2013
	€'000	€'000
Current taxation		
Withholding taxes deducted at source	**25**	18
Foreign taxes paid	**41**	19
	66	37
Deferred tax		
Origination and reversal of temporary differences	**(15,776)**	5,433
Total income tax (credit)/charge	**(15,710)**	5,470

	2014	2013
	€'000	€'000
(Loss)/Profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2013:12.5%)	**(13,939)**	4,945
Effects of:		
Net expenses not (taxable)/deductible for tax purposes	**(384)**	138
Differences in tax rates	**6**	6
Other adjusting items	**(1,393)**	381
Income tax (credit)/charge for the year	**(15,710)**	5,470

14 Basic and diluted profit per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of shares in issue during the year, excluding treasury shares.

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. As at 31 December 2014, dilutive potential ordinary shares relate to share awards and options granted that have satisfied specific performance conditions as set out in the underlying award or option agreement. In accordance with IAS 33, *Earnings per Share* paragraph 41, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease profit per share or increase loss per share from continuing operations. The conversion of the Group's share options and outstanding share awards results in an antidilutive effect in the calculation of the diluted earnings per share, given the Group's loss attributable to the owners of the parent in 2014. As such these potential ordinary shares are not treated as dilutive at 31 December 2014, and the diluted earnings per share is presented as if it equals basic earnings per share for the period. The weighted average number of dilutive potential ordinary shares in existence for purposes of 2014 diluted EPS was therefore nil (2013: 4,596,978).

	2014	2013
(Loss)/profit attributable to owners of the parent (€'000s)	**(95,799)**	34,088
Weighted average number of ordinary shares in issue (000s)	**532,633**	531,822
Basic and diluted (loss)/profit per share (cent per share)	**(18.0)**	6.4

	2014	2013
Weighted average number of ordinary shares in issue (000s)	**532,633**	531,822
Dilutive effect of options and long term incentive plan (000s)	**-**	4,597
Weighted average number of ordinary shares for diluted earnings per share (000s)	**532,633**	536,419

15 Property, plant and equipment

	Flight equipment	Property	Ground equipment	Other equipment	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
1 January 2013	1,204,206	36,374	50,976	26,396	1,317,952
Additions	21,739	2,338	1,815	2,593	28,485
Disposals	(24,047)	(15)	(2,672)	(114)	(26,848)
31 December 2013	1,201,898	38,697	50,119	28,875	1,319,589
Accumulated depreciation					
1 January 2013	493,292	22,756	41,437	19,380	576,865
Depreciation charge for the period	69,382	3,703	2,914	3,432	79,431
Disposals	(23,692)	(15)	(2,333)	(114)	(26,154)
31 December 2013	538,982	26,444	42,018	22,698	630,142
Cost					
1 January 2014	1,201,898	38,697	50,119	28,875	1,319,589
Additions	28,030	4,201	2,212	4,757	39,200
Disposals	(10,863)	-	(461)	(377)	(11,701)
31 December 2014	**1,219,065**	**42,898**	**51,870**	**33,255**	**1,347,088**
Accumulated depreciation					
1 January 2014	538,982	26,444	42,018	22,698	630,142
Depreciation charge for the period	72,208	3,979	2,764	4,618	83,569
Disposals	(10,863)	-	(431)	(224)	(11,518)
31 December 2014	**600,327**	**30,423**	**44,351**	**27,092**	**702,193**
Net book value					
31 December 2014	**618,738**	**12,475**	**7,519**	**6,163**	**644,895**
31 December 2013	662,916	12,253	8,101	6,177	689,447
Leased assets included above (net book value)					
31 December 2014	**349,247**	**-**	**-**	**-**	**349,247**
31 December 2013	465,650	-	-	-	465,650

Finance lease obligations are secured on flight equipment with a net book value of €349.2 million (2013: €465.7 million). Depreciation of €35.2 million (2013: €47.7 million) was charged on these assets during the year.

The terms of the leases under which these aircraft are held include agreements which allow the Group the option to purchase the aircraft at pre-agreed prices. In substance these agreements mean that the Group is likely to exercise these options and take ownership of these aircraft.

One of the Group's owned aircraft and one aircraft which the Group holds under a finance lease are subleased to third parties. The minimum duration of these leases is to 28 March 2015. Minimum amounts receivable under the subleases are €5.2 million at 31 December 2014, of which the full amount is due in less than one year. In 2014, these aircraft had a cost of €89.1 million, accumulated depreciation of €59.0 million and a net book value of €30.1 million. Depreciation in the current year amounted to €5.2 million.

Impairment tests for items of property, plant and equipment are performed on a cash generating unit basis when impairment triggers arise. No impairment charges of long-lived assets arose during 2014 or 2013. One such indicator of impairment as noted by IAS 36, *Impairment of Assets* is where the carrying amount of an entity's net assets is more than its market capitalisation.

Assets are deemed to be impaired when their carrying value is higher than their recoverable value. The recoverable values are assessed based on the higher of fair value less costs to sell and value-in-use. As at 31 December 2014, the market capitalisation of the Group was greater than its net asset value and no other impairment triggers were identified. As such an impairment assessment was not required to be performed to determine whether long-lived assets were recoverable. As at 31 December 2013, the Group's market capitalisation was lower than its net asset value and an impairment assessment was performed using a value-in-use basis to calculate recoverable value with the entire business treated as a single cash generating unit. Following completion of this assessment including consideration of sensitivities applied to assumptions regarding future trading and the discount rate, the recoverable value of the cash generating unit exceeded its carrying value and no impairment arose.

The Group believes that a single cash generating unit is the appropriate level at which to test impairment on the basis that its fleet assets are interchangeable and are deployed through a single route planning system. Cashflows for individual fleet assets cannot be determined as such cashflows are dependent on how each plane is deployed and given the inter-changeability of fleet assets, the Group has determined that, the Group as a whole represents the smallest identifiable group of assets that generate interdependent cashflows.

Value-in-use calculations are based on cash flow projections contained in forecasts approved by the Board of Directors for the remaining life of the assets in question and exclude expansion capital expenditure. Specific forecasts have been prepared for the period 2015-2018, with a long term assumption for growth of the business from 2019. Amounts included in the forecasts in respect of both revenue and operating costs reflect recent experience and management's expectation of long term market trends. The average operating margin included in the forecasts is consistent with historic experience over the medium term, having also taken into account the Group's present operating structure and factors which mean that less recent historic experience is less relevant. The long term growth rate assumed in the forecasts of 2.75% is assessed as reasonable given historic experience and current expectations in the Group's primary domestic, international and intercontinental markets over the medium term.

16 Intangible assets

	Computer software	License[1]	Landing Rights	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2013	61,311	3,000	-	64,311
Additions	5,493	-	-	5,493
Disposal	(604)	-	-	(604)
At 31 December 2013	66,200	3,000	-	69,200
Aggregate amortisation				
At 1 January 2013	51,531	333	-	51,864
Charge for the year	3,162	334	-	3,496
Disposal	(604)	-	-	(604)
At 31 December 2013	54,089	667	-	54,756
Cost				
At 1 January 2014	66,200	3,000	-	69,200
Additions	10,590	-	4,423	15,013
At 31 December 2014	**76,790**	**3,000**	**4,423**	**84,213**
Aggregate amortisation				
At 1 January 2014	54,089	667	-	54,756
Charge for the year	6,051	332	-	6,383
At 31 December 2014	**60,140**	**999**	**-**	**61,139**
Net book value				
31 December 2014	**16,650**	**2,001**	**4,423**	**23,074**
31 December 2013	12,111	2,333	-	14,444

[1] Licence to occupy certain daa owned property

17 Investment in joint venture

	2014	2013
	€'000	€'000
At 1 January	**13,933**	10,764
Investment during the year	**-**	3,644
Share of profit for the period	**611**	6
Other comprehensive income - amounts charged to retranslation reserve	**1,244**	(481)
At 31 December	**15,788**	13,933

During 2012, the Group acquired a 33.33% equity interest in the share capital of Propius Holdings Limited (the "Joint Venture"), the parent company of an aircraft leasing group. The Joint Venture acquired six ATR 72-600 series aircraft in 2013, one in April 2014 and a final such aircraft in July 2014. All aircraft are leased onward to Stobart Air. During 2013, the joint venture purchased the entire share capital of Propius Leasing Limited (formerly Arann Aircraft Leasing Limited). Propius Leasing Limited subsequently acquired two ATR 72-500s from Comhfhorbairt (Gaillimh), a company in the Aer Arann Group, which were then leased back to Comhfhorbairt (Gaillimh).
During the year, the Group paid €1.4 million (2013: €7.0 million) in respect of its share of the uncalled share capital. No further amounts are due to be paid in 2015.

Together, the cost of investment in respect of further amounts of share capital paid over to the Joint Venture in the year total €1.4 million (2013: €10.6 million). The amount shown in the cashflow statement in respect of investment in the Joint Venture during the year is €1.4 million (2013: €10.7 million). The difference of €0.1 million in 2013 represents offsetting cashflows in respect of hedges taken out to cover the cost of the share capital payments. These are shown in the cashflow statement within the "Other gains and losses" line within cash generated from operations.

The Group's share of the results of its Joint Venture in the year was a profit (after tax) of €0.61 million (2013: €0.01 million). The Group's share of capital commitments of the Joint Venture at 31 December 2014 was nil (31 December 2013: €6.2 million). There are no contingent liabilities relating to the Group's interest in the Joint Venture.

The table below sets out summarised financial information for Propius Holdings Limited. The Group accounts for this investment under the equity method, including recognition of the Group's share of post acquisition results. Propius Holdings Limited is an entity incorporated within the Cayman Islands, whose registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104. The principal place of business of the entity is the Republic of Ireland. Propius Holdings Limited is a private company and there is no quoted market price available for its shares.

The amounts below reflect the results of the entity translated from its presentation currency, US$, into the Group's presentation currency, Euro, at the average exchange rate for the year, and reflect the opening and closing assets and liabilities of the entity at the relevant rates.

Summarised balance sheet	**2014**	2013
	€'000	€'000
Current assets and liabilities		
Cash and cash equivalents	**10,380**	4,012
Other current assets	**2,644**	3,655
Total current assets	**13,024**	7,667
Financial liabilities	**(8,367)**	(6,174)
Other liabilities (including trade payables)	**(2,698)**	(2,097)
Total current liabilities	**(11,065)**	(8,271)
Non-current assets and liabilities		
Non-current assets	**133,273**	104,286
Financial liabilities	**(80,433)**	(60,512)
Other liabilities	**(7,354)**	(1,373)
Total non-current liabilities	**(87,787)**	(61,885)
Net assets	**47,445**	41,797

Summarised statement of comprehensive income	**2014**	2013
	€'000	€'000
Revenue	**13,665**	3,789
Depreciation	**(6,652)**	(1,648)
Other operating expenses	**(356)**	(702)
Interest expense	**(5,104)**	(1,448)
Other net income	**559**	64
Profit on operating activities before tax	**2,112**	55
Profit on operating activities after tax	**1,841**	18

Reconciliation of summarised financial information	**2014**	2013
	€'000	€'000
Opening net assets at 1 January	**41,797**	31,790
Total comprehensive income for the period including movements on retranslation reserves	**463**	553
Issue of share capital	**-**	10,934
Retranslation of closing net assets from US dollar to euro	**5,185**	(1,480)
Closing net assets	**47,445**	41,797

18 Group undertakings

Aer Lingus Group plc is incorporated under the Irish Companies Acts, 1963 to 2013. Its head office is at Dublin Airport, Co. Dublin, Ireland. It is the ultimate parent company in the Aer Lingus Group.

The principal Group companies are Aer Lingus Limited, Aer Lingus (Ireland) Limited and Dirnan Insurance Company Limited all of which are wholly owned. Aer Lingus Limited is incorporated in Ireland and is the principal operating company. Aer Lingus (Ireland) Limited is also incorporated in Ireland and employs former employees of SR Technics who provide maintenance service on the Aer Lingus fleet and certain categories of new employees joining the Group. Dirnan Insurance Company is incorporated in Bermuda and its principal activity previously was handling claims on expired insurance policies. During the year, all of the outstanding claims were commuted to third party insurers.
ALG Trustees was established in 2007 to manage the Group's Long Term Incentive Plan (LTIP). The Group controls the operations of the company and as such consolidates its results in the Group Accounts.

Aer Lingus ESOP Trustee Limited was wound up on 22 August 2014.

Aer Lingus 2009 DCS Trustee Limited (the "Corporate Trustee") was incorporated on 29 October 2014.

Details of the Group's subsidiary undertakings at 31 December 2014 are as follows:

Name of entity	**Country of incorporation and place of business**	**Registered office**	**Nature of business**	**Proportion of ordinary share capital held %**
Aer Lingus Limited	Republic of Ireland	Dublin Airport, Dublin	Operation of an international airline	100
Aer Lingus (Ireland) Limited	Republic of Ireland	Dublin Airport, Dublin	Provision of human resources support to fellow group companies	100
Dirnan Insurance Company Limited	Bermuda	Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12	Insurance claims management	100
Aer Lingus Beachey Limited	Isle of Man	Penthouse Suite, Analyst House, Peel Road, Douglas, Isle of Man, IM1 4LZ	Dormant	100
Aberport Limited	Republic of Ireland	Dublin Airport, Co. Dublin	Dormant	100
Aer Lingus Northern Ireland Limited	UK	Aer Lingus Base, Offices, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Dormant	100
Easthills Limited	UK	Fourth Floor, Quest House, 125-135 Staines Road, Hounslow, Middlesex, TW3 3JB	Dormant	100
Dirnan Ireland Limited	Republic of Ireland	Dublin Airport, Co. Dublin	Dormant	100
Santain Developments Limited	Republic of Ireland	Dublin Airport, Dublin	Dormant	100
Shinagh Limited	Republic of Ireland	Dublin Airport, Ireland	Dormant	100
Aer Lingus 2009 DCS Trustee Limited	Republic of Ireland	Dublin Airport, Dublin, Co. Dublin	Corporate Trustee	100

Full details of all group companies will be filed with the Company's annual return, which will be available from the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1.

19 Other financial assets

Loans and receivables

	2014	2013
	€'000	€'000
At 1 January	**43,629**	43,373
Interest income	**1,532**	1,902
Maturity of loans and receivables	**(34,316)**	-
Retranslation	**2,925**	(1,646)
At 31 December	**13,770**	43,629
Current element	**13,770**	31,887
Non-current element	**-**	11,742

There were no impairment provisions for loans and receivables in the current or prior year.

Loans and receivables comprise the following:

	2014	2013
	€'000	€'000
Zero-coupon debt securities traded on inactive markets with a maturity date of February 2015	**13,770**	43,629

These assets are unlisted securities denominated in US dollars. They are mainly held in order to meet certain finance lease obligations denominated in the same currency and with the same maturity.

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

As at 31 December 2014, if the financial assets had not been previously reclassified from available for sale financial assets, the fair value and carrying value of these financial assets would have been €13.8 million (31 December 2013: €43.9 million) and €13.8 million (31 December 2013: €43.5 million) respectively, which would have resulted in a fair value loss in equity of €0.2 million (2013: loss of €0.2 million). The fair values of unlisted securities are based on cash flows discounted using a rate based on the market interest rate and the risk premium appropriate to the unlisted securities. €0.2 million (2013: €0.2 million) was amortised from the available-for-sale reserve to the income statement in the year.

The effective interest rates of the financial assets reclassified into loans and receivable at the date of reclassification were 4.3%.

The estimated undiscounted cash flows that the Group expects to recover from the remaining financial assets reclassified from available for sale financial assets in 2008 was:

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over five years
	€'000	€'000	€'000	€'000
Unlisted debt securities:	13,770	-	-	-

20 Derivative financial instruments

	2014	2014	2013	2013
	€'000	€'000	€'000	€'000
	Assets	**Liabilities**	Assets	Liabilities
Forward foreign exchange contracts	**24,629**	**7,510**	525	14,208
Forward fuel price contracts	**5,468**	**110,924**	10,868	281
Total	**30,097**	**118,434**	11,393	14,489
Less non-current portion:				
Forward foreign exchange contracts	**1,305**	**1,033**	17	208
Forward fuel price contracts	**863**	**17,817**	1,251	7
Total non-current portion	**2,168**	**18,850**	1,268	215
Current portion	**27,929**	**99,584**	10,125	14,274

Derivative financial instruments represent the fair value of open foreign exchange forward contracts and fuel price swaps to which the Group is a party at the reporting date and are within level 2 of the fair value hierarchy (see Note 5.3). The fair value of these open positions is calculated by reference to the forward foreign exchange rates and forward fuel prices at the reporting date. During 2014, the fair value of fuel forward contract open positions decreased significantly due to the fact that fuel prices were US$449 per metric tonne lower than at 31 December 2013. This was partially offset by the increased value of the Group's foreign exchange hedges.

The gains and losses arising from cash flow hedging positions are recognised in reserves until they are realised. The position in reserves is recognised net of deferred tax.

The statement of comprehensive income shows fair value losses to 31 December 2014 of €85.3 million (2013: €8.4 million). These represent the mark to market losses on the Group's portfolio of fuel hedges, offset by the gain inherent in the Group's portfolio of foreign exchange hedges.

Foreign exchange contracts
The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2014 were €428.9 million (31 December 2013: €491.5 million).

Aircraft fuel price contracts
The Group enters into derivative contracts to fix the price of a proportion of its forecast aircraft fuel purchases. The notional principal amounts of the outstanding contracts at 31 December 2014 were €388.8 million (31 December 2013: €233.4 million).

The maximum exposure to credit risk at the reporting date is the value of the derivative assets in the statement of financial position.

A loss relating to ineffectiveness of fuel hedges of €5.0 million is reflected in the income statement in 2014 (2013: credit of €0.7 million).

Cash flows in respect of derivative financial instruments are expected to occur as they mature at various points over the next 18 months for foreign exchange positions, and over the next 25 months for fuel positions. The fair value of the instruments at settlement will impact the income statement as the hedged transaction occurs.

21 Inventory

Sundry inventory primarily comprises catering and retail stock for sale on board and in-flight equipment.

	2014	2013
	€'000	€'000
Sundry inventory	**3,245**	2,536

There were no write-downs of inventory during the current or prior year.

22 Trade and other receivables

	2014	2013
		As restated[1]
	€'000	€'000
Trade and other receivables	**53,845**	45,354
Other amounts receivables	**32,162**	28,124
Prepayments and accrued income	**42,544**	35,128
	128,551	108,606

Shown as:

	2014	2013
		As restated[1]
	€'000	€'000
Non-current assets	**43,532**	43,278
Current assets	**85,019**	65,328
	128,551	108,606

[1]See Basis of Preparation - Note 2 (ii)

The fair value of trade and other receivables equate to their book value at 31 December 2014 and 2013. The maximum exposure to credit risk is the fair value of trade and other receivables above.

The movements in provision for impairment of trade receivables during the year were as follows:

	2014	2013
	€'000	€'000
At 1 January	**1,658**	1,658
Increase during the year	**981**	1,096
Utilisation during the year	**(1,014)**	(1,096)
	1,625	1,658

The creation and release of provisions for impairment of trade receivables have been included in "Ground operations, catering and other operating costs" within the income statement. Amounts receivable are charged to the provision account when there is no expectation of recovering the amounts outstanding.

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

Receivable balances are continually monitored and reviewed for impairment at each reporting date. At 31 December 2014, trade and other receivables of €5.4 million (2013: €6.5 million) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	2014	2013
	€'000	€'000
Up to 1 month past due	**4,103**	5,173
Over 1 month past due	**1,249**	1,322
	5,352	6,495

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:

	2014	2013
		As restated[1]
	€'000	€'000
Euro	**83,463**	73,297
US dollar	**39,852**	28,457
Sterling	**4,127**	6,228
Other currencies	**1,109**	624
	128,551	108,606

[1]See Basis of Preparation - Note 2 (ii)

Company

	2014	2013
	€'000	€'000
Amounts due from subsidiary undertakings	**645,383**	666,738
	645,383	666,738

Shown as:

	2014	2013
	€'000	€'000
Current assets	**645,383**	666,738

Amounts due from subsidiary undertakings have a 0% interest rate and are repayable on demand. The Group's cash deposits were lent to its principal subsidiary.

23 Gross Cash

Gross cash comprises the following:

	2014	2013
	€'000	€'000
Non-current		
Loans and receivables	**-**	11,742
Deposits	**95,408**	101,752
	95,408	113,494
Current		
Loans and receivables	**13,770**	31,887
Deposits	**442,021**	563,229
Restricted deposit - pension escrow	**190,700**	-
Cash and cash equivalents	**193,769**	188,805
Bank overdraft	**(155)**	-
	840,105	783,921
Total gross cash	**935,513**	897,415

At 31 December 2014, the gross cash balance available to the Group totalled €935.5 million or €723.8 million when excluding the restricted cash of €211.7 million (of which €190.7 million of this €211.7 million related to the pension escrow). The restricted cash balances are not available for immediate use by the Group.

The Group holds deposits in order to meet certain finance lease obligations, which are denominated in the same currency, and non-current deposits are mainly comprised 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 lease obligations.

Current deposits have maturity terms of between three and twelve months at year end. Given that the maturity of these investments falls outside the three month timeframe for classification as cash and cash equivalents under IAS 7, *Statement of Cash Flows*, the related balances have been treated as "deposits". The effective interest rate on financial assets classified as current deposits as at 31 December 2014 was 0.49% (2013: 0.34%). These deposits have a weighted average maturity of 122 days (2013: 131 days) as at 31 December 2014.

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

	2014	2013
	€'000	€'000
Euro	**624,565**	559,855
US dollar	**290,907**	331,250
Sterling	**18,374**	4,956
Other	**1,667**	1,354
	935,513	897,415

Company

The Company's gross cash balances consist of cash and cash equivalents:

	2014	2013
	€'000	€'000
Current		
Cash	**295**	8

Further to the wind-up of the ESOT during 2014 (as referred to in Note 34), the Trustee of the ESOT approved transfer of unclaimed shares as well as some surplus monies also held by the ESOT to Aer Lingus Group plc to hold in trust. These monies are held as restricted cash in Aer Lingus Group plc pending distribution to the ultimate beneficiaries of the ESOT.

24 Trade and other payables

	2014	2013 As restated[1]
	€'000	€'000
Trade payables	**66,866**	55,115
Accruals and deferred income	**74,139**	55,832
Ticket sales in advance excluding taxes and charges[2]	**150,676**	133,131
Employment related taxes	**6,361**	7,154
Other amounts payable	**32,252**	32,838
	330,294	284,070

Shown as:	2014	2013 As restated[1]
	€'000	€'000
Non-current liability	**1,863**	-
Current liability	**328,431**	284,070
	330,294	284,070

[1]See Basis of Preparation - Note 2 (ii)

[2]The total value of ticket sales in advance at year end was €175.3 million (2013: €158.5 million)

Company

	2014	2013
	€'000	€'000
Other amounts payable	**295**	-
	295	-

This amount relates to the funds held by Aer Lingus Group plc on behalf of ESOT beneficiaries whom have yet to claim their shares (as referred to in Note 23 and Note 34).

25 Finance lease obligations

	2014	2013
	€'000	€'000
Repayable - within one year	92,573	114,321
- from one to two years	28,396	84,264
- from two to five years	215,156	120,186
- after five years	54,056	158,827
	390,181	477,598
Less current portion	(92,573)	(114,321)
Non-current portion	297,608	363,277

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

	Carrying amounts		Fair values	
	2014	2013	2014	2013
	€'000	€'000	€'000	€'000
Finance lease obligations	390,181	477,598	393,140	470,031

The fair values are based on cash flows discounted using a rate on prevailing forward market rates. In 2014, these rates ranged from -0.05% to 1.78% and are within level 2 of the fair value hierarchy.

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

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

	2014	2013
	€'000	€'000
Euro	144,473	160,529
US dollar	245,708	317,069
	390,181	477,598

The effective interest rates at the reporting date were as follows:

	2014		2013	
	€	$	€	$
Finance lease obligations	3.11%	2.15%	3.20%	2.10%

Finance lease obligation - minimum lease payments

	2014	2013
	€'000	€'000
No later than one year	107,364	132,802
Later than one year but no later than five years	279,394	249,794
Later than five years	57,250	163,992
	444,008	546,588
Future finance charges on finance leases	(53,827)	(68,990)
Capital value of finance lease liabilities	390,181	477,598

26 Defined Contribution Pension Schemes

In 2014, the Group's operating subsidiary, Aer Lingus Limited, participated in a number of pension schemes for its staff. The two main pension schemes are the Irish Airlines (Pilots) Superannuation Scheme (the "Pilots Scheme"), for its pilots, and the Irish Airlines (General Employees) Superannuation Scheme (the "IASS"), a multi-employer scheme (daa, Public Limited Company ("daa"), Shannon Airport Authority plc ("SAA") and SR Technics being the other sponsoring employers) for other employees who fall within the category of "General Employees" (collectively the "Irish Pensions Schemes"). Aer Lingus Limited is the sponsoring company for the Group's participation in the Irish Pension Schemes. Although similar rules apply to both Irish Pension Schemes, the contribution rates and benefits differed between the schemes in 2014. Aer Lingus Limited's contributions to these two schemes are set out in the table below.

	2014	2013
	€'000	€'000
Irish Airlines (General Employees) Superannuation Scheme	**4,808**	4,880
Irish Airlines (Pilots) Superannuation Scheme	**11,501**	10,819
Other defined contribution schemes	**4,530**	4,529
Total	**20,839**	20,228

The Irish Pension Schemes are accounted for as defined contribution schemes in both the entity accounts of Aer Lingus Limited and in the Group's consolidated accounts because the rate of contribution to these schemes is fixed. The trust deed governing the IASS (which was recently amended on 31 December 2014) and the trust deed governing the Pilots' Scheme to which Aer Lingus Limited contributes, state respectively that no changes to those contribution rates are possible without Aer Lingus Limited's consent. The Board remains of the opinion that the responsibility of Aer Lingus Limited to contribute to the Irish Pension Schemes is fixed at Aer Lingus Limited's current contribution rates and, accordingly that Aer Lingus Limited has neither a constructive nor a legal obligation to increase its rate of contributions to the Irish Pension Schemes, even if those schemes are found to have insufficient funds to pay all members the benefits relating to their current or past service.

Irish Airlines (General Employees) Superannuation Scheme
The IASS is a multi-employer scheme with fixed contributions made by the employers and employees in accordance with the scheme's trust deed and rules. With effect from 1 January 2015, both IASS benefit accrual as well as employer and employee contributions to the IASS ceased in line with the implementation of the IASS solution (described in more detail later in this note).

As at 30 June 2014 (the latest date for which IASS membership data is available from advisors to the IASS Trustee and taking into account known membership movements between 30 June 2014 and 31 December 2014, e.g. retirements, leavers and deaths), the IASS had 14,204 members comprising 4,066 active IASS members, 5,179 deferred IASS members and 4,959 pensioners and approximately 68% of IASS members are current or former employees of Aer Lingus Limited. The statutory Minimum Funding Standard (the "MFS") is an Irish legislative provision which requires a pension scheme to aim to hold assets which would be sufficient to meet accrued liabilities of the scheme if the scheme were to be immediately wound up. Under Irish pension legislation, trustees of a pension scheme which is unable to satisfy the MFS are obliged to submit a funding proposal to the Pensions Authority. At 31 August 2014 (the most recent date in respect of which estimated MFS data has been provided by advisors to the IASS), the IASS was estimated by the IASS Trustee's actuary to have a statutory MFS deficit of approximately €707 million (the deficit at 31 December 2013 was approximately €715 million). Employees who joined Aer Lingus Limited since late 2009 are not eligible to become members of the IASS.

Aer Lingus Limited's and the other sponsoring employers' consistent position is that there is no obligation to contribute anything other than the applicable fixed rate of contribution to the IASS and in the absence of the assumption of additional voluntary commitments, the IASS Trustee would have been required to take measures to address the funding position of the IASS. The IASS funding issue therefore resulted in a risk that Aer Lingus Limited could have become involved in industrial disputes with its employees, which would have been significantly detrimental to the operations of the airline and its financial performance. It was also possible that although Aer Lingus Limited's position that it has no responsibility for the deficit in the IASS, this position could be subject to legal challenge from various potential claimants. Any such challenge would be strenuously defended. Lengthy litigation could ensue. If, contrary to the firm legal advice that Aer Lingus Limited has received (that such a challenge was unlikely to succeed), a Court were to find against Aer Lingus Limited in any such litigation, significant or very significant loss could arise.

Although Aer Lingus Limited is aware that certain parties have threatened proceedings against the company in relation to the IASS, no proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, of Aer Lingus Limited should such claims be made and succeed.

Discussions with the relevant parties

In the context of the IASS funding shortfall, Aer Lingus Limited attempted to assist in the achievement of a fair outcome that improved the pension prospects of IASS members in a way that balances the interests of all parties, including shareholders and employees. On this basis, Aer Lingus Limited participated in a process of discussion under the auspices of the Labour Relations Commission which commenced in 2010 and which also involved the Irish Business and Employers Confederation ("IBEC"), the Irish Congress of Trade Unions ("ICTU"), the Irish Labour Court and an Expert Panel established in March 2014 by two Irish Government departments, IBEC and ICTU. This process was the subject of interim and final recommendations issued by the Labour Court on 2 January 2013 and on 24 May 2013, respectively, which set the main parameters for the resolution of the issues arising. The report subsequently issued by the Expert Panel on 16 June 2014 built upon the Labour Court recommendations while varying certain elements of these recommendations.

The Expert Panel Report

The purpose of the Expert Panel (referred to above) was to investigate how a final resolution of the industrial relations issues relating to the IASS could be achieved following the inability of the parties to implement the recommendations issued by the Irish Labour Court in January and May 2013, respectively.

The Expert Panel issued its report (the "Expert Panel Report") on 16 June 2014. This Report built on the Labour Court Recommendations but with some variations between the Expert Panel Report and the Labour Court Recommendations. These variations related to the application of more conservative assumptions in relation to certain pension benefits as well as the buy-out of certain trade union pension funding claims. The effect of these variations increased the €110 million payment previously proposed to be paid by Aer Lingus Limited in respect of IASS members in receipt of income from Aer Lingus Limited to a proposed payment of €146.7 million while preserving the staff cost stabilisation measures previously proposed by the Labour Court Recommendations.

The Expert Panel Report did not quantify a recommended amount in respect of deferreds. Instead, the Expert Panel recommended a set of principles with Aer Lingus Limited and daa (on its own behalf and on behalf of SAA) with regard to an increased payment to deferreds. Based on this set of principles, Aer Lingus Limited calculated that the €30 million once-off payment previously proposed to be paid by it in respect of deferreds would increase by €14.0 million to €44.0 million.

The aggregate effect of the variations recommended by the Expert Panel and discussed with the IASS Trustee was to increase the total once-off payment to be made by Aer Lingus Limited from €140.0 million to €190.7 million in addition to implementation costs.

On 27 June 2014, Aer Lingus announced that it accepted the recommendations of the Expert Panel on the basis that the Expert Panel's report represented a full and final solution capable of acceptance by all the parties and which would definitively address the funding issues in the IASS.

Principal terms and conditions of the IASS solution

The IASS solution seeks to address the issues arising from the funding shortfall in the IASS and to achieve certain targeted (but not definitive or guaranteed) pension benefit levels recommended by the Labour Court during 2013 and supported by the Expert Panel during 2014.

The IASS solution involves a number of elements:

(a) a once-off payment by Aer Lingus of €190.7 million comprising:

   i. €146.7 million once-off employer contribution for the purpose of providing new pension arrangements in a defined contribution pension plan for the benefit of Aer Lingus IASS members (who are still in receipt of an income from Aer Lingus); and

   ii. €44.0 million once-off employer contribution for the purpose of providing new pension arrangements in a new deferred defined contribution pension plan for deferred Aer Lingus IASS members (i.e. members of the IASS who have left employment and are not in receipt of an income from Aer Lingus but who are not yet receiving their pensions);

(b) the cessation of benefit accrual and contributions with regard to the IASS as well as the implementation of changes to the IASS investment strategy;

(c) the Pensions Authority approving a funding plan (i.e. a proposal from the IASS Trustee to the Pensions Authority outlining how the IASS will satisfy the MFS over an agreed time period, in this case 25 years) and Section 50 Application (an application to reduce the benefits under the IASS so that the MFS can be met) from the IASS Trustee (i) to reduce accrued IASS benefits for both active IASS members and deferred IASS members firstly through the co-ordination of accrued IASS benefits with the Irish State pension and then secondly through a further 20% reduction in benefits; and (ii) to reduce the pensions of Retired IASS Members by between 0% and 20% depending upon the level of their annual pension, and (iii) removal of revaluation of benefits prior to payment;

(d) the revision of the existing Aer Lingus defined contribution pension plan to a new current employee defined contribution pension plan in respect of future service pension contributions for employees of Aer Lingus who are currently IASS members and in respect of the once-off payments for Aer Lingus IASS members who are still in receipt of income from Aer Lingus and the establishment of a new deferred defined contribution pension plan in respect of deferred Aer Lingus IASS members who are not in receipt of income from Aer Lingus or an IASS pension; and

(e) the once-off payment will be transferred to an escrow account and will only be released into individual accounts in the new current defined contribution pension plan and the new deferred defined contribution pension plan on receipt of correctly executed and signed waivers. These waive any and all rights to legal action against Aer Lingus Limited and the IASS Trustee in relation to the IASS.

Approval of the IASS solution by Aer Lingus shareholders and subsequent implementation of the IASS solution

The resolution to authorise the Directors to proceed with the implementation of the IASS solution was successfully passed at the EGM on 10 December 2014. Following this approval, Aer Lingus Limited transferred the entire amount of the €190.7 million comprising the once-off pension contribution to an escrow structure and the IASS Trustee confirmed that the previously prepared funding proposal and Section 50 application remained effective. On 23 December 2014, the Pensions Authority approved the funding proposal and Section 50 application previously submitted to the Pensions Authority by the IASS Trustee.

Following the approval by the Pensions Authority, benefit accrual in the IASS froze and employer and employee contributions to the IASS ceased with effect from 31 December 2014 and implementation of the IASS solution commenced on 1 January 2015. Specifically, with effect from 1 January 2015, once-off payments from the escrow structure started to be released into individual accounts in the new current employee defined contribution pension plan and the new deferred defined contribution pension plan on receipt of correctly executed and signed waivers. These waive any and all rights to legal action against Aer Lingus Limited and the IASS Trustee in relation to the IASS.

As at 24 March 2015, 42% of waivers were executed. By 24 March 2015, €80.2 million had been paid from the pension escrow. Therefore, at this date €110.5 million of the €190.7 million remained in escrow to be administered.

Status of waivers (as at 24 March 2015)

	Valid Received	Valid % Received	Outstanding	Outstanding %	Total	Total %
Active members	1,297	52%	1,213	48%	**2,510**	**100%**
Deferred members	1,025	33%	2,054	67%	**3,079**	**100%**
Total	**2,322**	**42%**	**3,267**	**58%**	**5,589**	**100%**

Although Aer Lingus Limited is aware that certain parties have threatened proceedings against the company in relation to the IASS solution, no proceedings have been issued to date and it is not therefore practicable to estimate the financial exposure, if any, of Aer Lingus Limited should such claims be made and succeed.

Irish Airlines (Pilots) Superannuation Scheme

Aer Lingus Limited has also been involved in a separate set of discussions concerning the Pilots Scheme which is a single employer scheme for Aer Lingus pilots. As part of the Greenfield agreements negotiated in late 2009 under the auspices of the LRC, Aer Lingus Limited and the Irish Airlines Pilots Association agreed certain changes to the scheme with the aim of addressing the deficit in this scheme over time. The changes included an increase in retirement age from 55 to 60, a reduction in accrual rate for future service from 45ths to 60ths and an increase in member contributions from 7% to 11% of salary. There was no change in employer contributions which remain at 21% of salary. The changes were approved by the Pilots Scheme trustees and became effective as from 1 January 2011.

At 31 December 2014 (the most recent date for which Pilots Scheme membership data is available), the Pilots Scheme had 929 members, comprising 468 active members, 96 deferred members and 365 pensioners. As at 31 December 2014 (the most recent date in respect of which estimated MFS data has been provided by advisors to the Pilots Scheme), the Pilots Scheme was estimated to have an actuarial deficit of approximately €212 million on the statutory MFS basis.

Aer Lingus' consistent position is that its liability to contribute to the Pilots Scheme is fixed at its current contribution rate and, accordingly that it has neither a constructive nor a legal obligation to increase its rate of contribution to the Pilots Scheme, even if the scheme is found to have insufficient funds to pay all employees expected benefits relating to their current and past employment service. In the absence of additional funding commitments from Aer Lingus, the trustee of the Pilots Scheme will have been required to take measures to improve that scheme's financial position.

Aer Lingus has engaged in discussions regarding the Pilots Scheme with the trustee of the Pilots Scheme and IALPA. The parties have agreed a form of funding proposal that has been submitted to the Pensions Authority and this funding proposal does not involve any capital contribution by Aer Lingus Limited either within the Pilots Scheme or outside of the Pilots Scheme. The Pensions Authority approved the funding proposal on 3 December 2014.

27 Post employment benefits

Defined benefit schemes
The liabilities in respect of the Group's post employment benefit obligations are as follows:

	2014	2013
	€'000	€'000
North American Pension (a)	**3,450**	2,037
North American Post Employment Medical Benefit (b)	**2,578**	1,999
Post Retirement Income Streaming (c)	**13,395**	24,580
Other	**143**	(362)
	19,566	28,254

The following is a summary of the Group's employee benefit obligations and their related funding status:

	2014	2013
	€'000	€'000
Present value of funded obligations	**(15,539)**	(12,245)
Fair value of plan assets	**11,946**	10,570
Deficit in funded plans	**(3,593)**	(1,675)
Present value of wholly unfunded obligations	**(15,973)**	(26,579)
Net employee benefit liabilities	**(19,566)**	(28,254)

The liabilities in respect of the Group's post employment benefit obligations are as follows:

	2014	2013
	€'000	€'000
Funded		
North America Pension	**3,450**	2,037
Other	**143**	(362)
	3,593	1,675
Unfunded		
Post Retirement Income Streaming	**13,395**	24,580
North America Post Retirement Medical Benefits	**2,578**	1,999
	15,973	26,579

The (credits)/charges to the income statement in respect of these obligations are as follows:

	2014	2013
	€'000	€'000
Funded (a)	**435**	86
Unfunded (b)	**(18,480)**	2,683
	(18,045)	2,769

Actuarial (gains)/losses (gross of deferred tax) recognised in the statement of other comprehensive income during the year:

	2014	2013
	€'000	€'000
Funded (a)	**1,469**	(2,099)
Unfunded (b)	**7,886**	(6,302)
	9,355	(8,401)

The dates of the most recent actuarial valuation in respect of the various schemes are as follows:

	Valuation date
Funded	
North American Pension	31 December 2014
Other	31 December 2014
Unfunded	
Post Retirement Income Streaming	31 December 2014
North American Post Retirement Medical Benefit	31 December 2014

Valuations are not available for public inspection; however they are available to the members of the above schemes.

The North American Pension schemes apply the regulations of The Employee Retirement Income Security Act of 1974 (ERISA) and The Internal Revenue Code. The Employee Retirement Income Security Act of 1974 is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans. The Internal Revenue Code, as set forth by the Internal Revenue Service, also provides regulations and guidance for the administration of pension and medical schemes. The pension schemes set up under trust and operated by Aer Lingus in Ireland are exempt approved schemes under the Taxes Consolidation Act 1997 and are regulated by the Pensions Authority under the Pensions Act 1990 (Amended).

(a) Funded

The Group operates a defined benefit scheme for qualifying employees and former employees of its operation in North America. Under the scheme, employees are entitled to retirement benefits comprising a lump sum on retirement representing 50% of final average compensation, plus a pension calculated as 1% of final average compensation for each year of membership, on reaching retirement age of 65. Retirement benefits are reduced for service of less than 20 years. The scheme has 109 members (2013: 114). Both plan participation and accrual of benefits are frozen.

The Group also operates a defined benefit scheme in respect of two retired Irish former executives of the Group and their spouses.

The risks of these schemes relate primarily to demographic assumptions around mortality and to future asset performance. Future financial statement liabilities and expense will also be affected by future changes in the rate used to discount the liabilities. The Group seeks to match the assets it holds in respect of funded schemes to the liabilities of the plans, in terms of currency and maturity, and also seeks to balance risk and return in making asset investment decisions which match investment yield to expected cash outflows. The Group has not changed the process used to manage its risks from previous periods.

The movement in the defined benefit obligation in respect of funded arrangements during the year is as follows:

	2014	2013
	€'000	€'000
At 1 January	**12,245**	14,422
Interest cost	**472**	479
Remeasurement - effects of changes in demographic assumptions	**559**	34
Remeasurement - effects of changes in financial assumptions	**827**	(822)
Remeasurement - effects of experience adjustments	**351**	(657)
Benefits paid	**(363)**	(831)
Retranslation	**1,448**	(380)
At 31 December	**15,539**	12,245

The movement in the fair value of related plan assets during the year is as follows:

	2014	2013
	€'000	€'000
At 1 January	**10,570**	9,770
Interest income	**393**	342
Remeasurements - effect of experience adjustments	**268**	654
Employer contributions	**-**	973
Benefits paid	**(363)**	(831)
Taxes paid	**(14)**	(9)
Retranslation	**1,092**	(329)
At 31 December	**11,946**	10,570

The amounts recognised in the income statement are as follows:

	2014	2013
	€'000	€'000
Interest cost - recognised in finance expense	**472**	479
Interest income	**(393)**	(342)
Retranslation - recognised in other gains/losses	**356**	(51)
Total recognised in income statement	**435**	86

The actual return on plan assets was €0.8 million (2013: €1.1 million)

Key Assumptions

The principal actuarial assumptions relating to funded schemes were as follows:

	2014	2013
Discount rate - Other	**1.80%**	3.50%
Discount rate - North America Pension	**3.57%**	4.23%
Inflation rate	**1.75%**	2.00%
Future salary increases	**N/A**	N/A
Future pension increases - Other	**2.19%**	2.50%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into the following average life expectancy in years for a pensioner retiring at age 65:

	2014	2013
Retiring at the end of the reporting period:		
-Male (Other)	**21.6**	19.2
-Male (North America Pension)	**24.5**	24.2
-Female	**23.8**	21.1
Person aged 40 retiring 25 years after the end of the reporting period:		
-Male (currently aged 40)	**23.7**	19.2
-Female (currently aged 40)	**25.9**	21.1

Sensitivities

The sensitivity of the post employment benefit liabilities to changes in the weighted principal assumptions is:

		Change in assumption	**Impact on overall liability**
Discount rate	North American Pension Scheme	Increase/decrease by 0.25%	Decrease by 2.30%/increase by 2.41%
Discount rate	Other	Increase/decrease by 0.25%	Decrease by 2.72%/increase by 2.84%
Inflation rate	Other	Increase/decrease by 0.25%	Increase by 4.05%/decrease by 3.90%

The above sensitivity analyses are based on a change in the assumption noted while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the post employment liabilities the same method has been applied as when calculating the liability recognised within the statement of financial position.

Plan assets are comprised as follows:

	2014		2013	
	€'000		€'000	
Equity instruments	**4,870**	**41%**	4,728	45%
Debt instruments	**7,055**	**59%**	5,717	54%
Property	**7**	**0%**	18	0%
Other	**14**	**0%**	107	1%
Total	**11,946**	**100%**	10,570	100%

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of scheme assets. The largest proportion of assets is invested in bonds, although the schemes also invest in equities, property and cash.

No contributions are expected to the funded post-employment benefit plans for the year ending 31 December 2015.

The Group has agreed that it will aim to eliminate the deficit in the North American pension scheme.

(b) Unfunded

The Group operates a post employment medical benefit scheme for certain former employees of the operation in North America. The scheme has 63 members (2013: 67). Both participation in the plan and accrual of benefits are frozen.

The Group previously recognised a liability in regards to an income streaming arrangement in respect of certain current and former employees who have an elective post-retirement entitlement. These arrangements provide an income equating to a pension until members reach the age of 65 at which point benefits cease.

The risks of these schemes relate primarily to future medical cost inflation and to financial assumptions including changes to discount rates. The Group has not changed the process used to manage its risks from previous periods.

The amounts recognised in the statement of financial position are as follows:

	2014	2013
	€'000	€'000
Present value of unfunded obligations, being scheme deficits and liability in the statement of financial position	**15,973**	26,579

The movement in the defined benefit obligation in respect of unfunded arrangements during the year is as follows:

	2014	2013
	€'000	€'000
At 1 January	**26,579**	30,206
Current service cost	**1,880**	1,713
Past service credit	**(21,674)**	-
Interest cost	**1,060**	1,022
Remeasurements - effect of changes in demographic assumptions	**9**	(1,521)
Remeasurements - effect of changes in financial assumptions	**9,216**	(2,352)
Remeasurements - effect of experience adjustments	**(1,339)**	(2,429)
Benefits paid	**(12)**	(8)
Retranslation	**254**	(52)
At 31 December	**15,973**	26,579

The amounts recognised in the income statement are as follows:

	2014	2013
	€'000	€'000
Current service costs - recognised in staff costs	**1,880**	1,713
Past service credit - recognised in net exceptionals	**(21,674)**	-
Interest cost - recognised in finance expense	**1,060**	1,022
Retranslation -recognised in other gains/losses	**254**	(52)
Total recognised in income statement	**(18,480)**	2,683

Key Assumptions

The principal actuarial assumptions relating to unfunded schemes are as follows:

	2014	2013
Discount rate - Post retirement Income Streaming	**2.20%**	3.95%
Discount rate - North America Post Retirement Medical Benefits	**3.47%**	4.30%
Inflation rate	**1.75%**	2.00%
Future long term medical cost inflation	**5.00%**	5.00%
Future salary increases	**0.00%**	3.00%
Future pension increases	**0.44%**	0.50%

It is assumed that all those reaching 60 will reach 65, at which point benefits under the income streaming arrangement cease.

Sensitivities

The sensitivity of the post employment benefit liabilities to changes in the weighted principal assumptions is:

		Change in assumption	Impact on overall liability
Short term medical costs	North American Medical Scheme	Increase/decrease by 1.00%	Increase by 10.28%/decrease by 9.41%
Discount rate	North American Medical Scheme	Increase/decrease by 0.25%	Decrease by 2.61%/increase by 2.68%
Discount rate	Income streaming	Increase/decrease by 0.25%	Decrease by 4.03%/increase by 4.25%
Inflation rate	Income streaming	Increase/decrease by 0.25%	Increase/decrease by 0.15%

The above sensitivity analyses are based on a change in the assumption noted while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the post employment liabilities the same method has been applied as when calculating the liability recognised within the statement of financial position.

Due to the unfunded nature of these arrangements, no contributions are expected during the year ended 31 December 2015.

Maturity analysis

The expected maturities of the undiscounted funded and unfunded schemes over the next 10 years are as follows:

At 31 December 2014	Less than a year €'000	Between 1-2 years €'000	Between 2-5 years €'000	Between 5-10 years €'000	Total €'000
Funded	2,235	935	3,123	3,872	10,165
Unfunded	329	467	2,677	5,366	8,839
Total	**2,564**	**1,402**	**5,800**	**9,238**	**19,004**

28 Provisions for other liabilities and charges

	Business Repositioning[1]	Aircraft Maintenance[2]	Other[3]	Total
	€'000	€'000	€'000	€'000
At 1 January 2013	32,421	37,634	14,815	84,870
Provided during the year	12,984	20,234	261	33,479
Written back during the year	-	(1,255)	(311)	(1,566)
Utilised during the year	(26,181)	(13,426)	(210)	(39,817)
Unwind of discounting	213	133	127	473
Retranslation	8	(715)	-	(707)
At 31 December 2013	19,445	42,605	14,682	76,732
At 1 January 2014	19,445	42,605	14,682	76,732
Provided during the year	7,168	20,464	4,169	31,801
Written back during the year	(639)	(218)	-	(857)
Utilised during the year	(13,625)	(3,599)	(354)	(17,578)
Unwind of discounting	114	93	85	292
Retranslation	-	3,988	-	3,988
At 31 December 2014	12,463	63,333	18,582	94,378
Analysed as current liabilities				
31 December 2014	**3,118**	**8,692**	**6,240**	**18,050**
31 December 2013	12,493	3,270	3,342	19,105
Analysed as non-current liabilities				
31 December 2014	**9,345**	**54,641**	**12,342**	**76,328**
31 December 2013	6,952	39,335	11,340	57,627
Total Provision				
31 December 2014	**12,463**	**63,333**	**18,582**	**94,378**
31 December 2013	19,445	42,605	14,682	76,732

[1] ***Business repositioning***
Business repositioning costs include provisions for restructuring costs recognised in accordance with IAS 37 when a constructive obligation exists and a provision for termination benefits that are not part of a restructuring plan, and are therefore recognised in accordance with IAS 19R when the entity can no longer withdraw the offer of benefits.

The amount of the restructuring provision is based on the terms of the restructuring measures, including employee severance, which have been communicated to employees. It represents the Directors' best estimate of the cost of these measures.

The provision relating to the voluntary severance programme has been recorded in respect of individuals who at the reporting date had accepted the offer of voluntary severance but had not yet received payment.

At 31 December 2014, the majority of the business repositioning provision relates to the closure of the Shannon hangar maintenance operation and an associated onerous lease contract as well as termination costs in respect of the voluntary severance programme. Measurement uncertainty associated with restructuring provisions arises from the achievement of certain operating and financial targets and changes in human resources requirements. Uncertainty associated with the provision in respect of the voluntary severance programme relates to the timing of employee exit dates. The voluntary severance provision is expected to be materially utilised in the next financial year, with the remaining provision balance expected to be largely utilised in the next 7 years.

[2] ***Aircraft maintenance***
A provision is made on a monthly basis for maintenance of aircraft held under operating leases. The provision will be utilised as the major airframe and engine overhauls take place and to meet the contractual return conditions as the operating leases expire. Measurement uncertainty associated with aircraft maintenance provisions arises from the timing and nature of overhaul activity required, lease return dates and conditions, and likely utilisation of the aircraft. As a result of this and the level of uncertainty attaching to the final outcomes, the actual results may differ significantly from those estimated. The provision is expected to be utilised in the next 7 years, the majority of which will be utilised in the next 3 years.

[3] ***Other***
Other provisions relate mainly to the frequent flyer programme and free flight entitlements in respect of former employees. The frequent flyer provision is utilised when points are used or when they become non-redeemable. Points are redeemable for a maximum of three years. Measurement uncertainty associated with the frequent flyer and free flight programmes typically arise from variances in estimates of flight utilisation and length of sectors flown by programme members. In 2014, the Group also recognised a provision in respect of a probable outflow of benefits arising from a dispute with a supplier.

29 Provision for IASS solution – once-off pension contribution

	2014	2013
	€'000	€'000
At 1 January	-	-
Provided during the year	**190,700**	-
At 31 December	**190,700**	-
Analysed as current liabilities		
31 December 2014	**190,700**	**-**
31 December 2013	-	-

In December 2014, Aer Lingus Group plc shareholders voted in favour of the IASS solution which seeks to address issues arising from the funding deficit in the IASS (see Note 26). The approval of the IASS solution involved a once-off exceptional charge of €190.7 million in Aer Lingus' consolidated income statement (see Note 10) and the recognition of a provision, also with a value of €190.7 million, in the Group's consolidated statement of financial position.

The proposed once-off contribution of €190.7 million has been placed in an escrow structure has been disclosed as a restricted deposit balance in Aer Lingus' consolidated statement of financial position (see Note 23).

This liability reduces further and potentially to nil as the correctly executed waivers referred to in Note 26 are received. No such correctly executed waivers had been received as at 31 December 2014.

See Note 39 'Events after the reporting period' and Note 26 'Defined contribution pension schemes' for more detail in relation to this provision.

30 Contingent liabilities and assets

Arrangement relating to Stobart Air
Aer Lingus Regional flights are operated by Stobart Air (previously known as Aer Arann). However, passengers book their flights using the Aer Lingus website and booking channels. Should Stobart Air fail to meet its obligations to passengers and if such passengers were to then seek refunds from their credit card providers, Aer Lingus may have an obligation to reimburse those credit card companies for losses incurred. In such circumstances, Aer Lingus would have a corresponding claim against Stobart Air.

No amounts have been provided in respect of this matter.

Air travel tax
On 25 July 2012, the European Commission ("EC") issued a decision with regard to the Irish air travel tax. With effect from 31 March 2009, Ireland introduced an air travel tax for flights departing from Irish airports. The tax was set at €2 for destinations within 300km of Dublin airport and at €10 for those exceeding 300km. The EC found that the lower rate constituted unlawful state aid and ordered Ireland to recover €8 per passenger (being the difference between the lower and the higher rate) for each passenger subject to the lower rate from a number of airlines, including Aer Lingus.

In April 2013, the Irish Government commenced High Court proceedings against Aer Lingus pursuant to the EC's decision of 25 July 2012 seeking recovery of approximately €4 million plus interest. Aer Lingus is contesting these proceedings and is assessing the implications for these proceedings of the recent judgement of the General Court (see below). Aer Lingus has also issued separate proceedings against the Irish Government on the basis that the air travel tax infringed EU rules on free movement of services. These proceedings seek repayment of €8 per passenger for each passenger subject to the higher rate and/or damages.

On 5 February 2015, the European General Court annulled the EC's decision in so far as it ordered the recovery of the aid from the beneficiaries for an amount set at €8 per passenger. While the General Court found that the EC had not erred in concluding that the application of the different rates of air travel tax constituted State aid in favour of airlines whose flights were subject to the lower rate of €2, it found that the EC had erred in quantifying the amount of aid to be recovered at €8 per passenger. The General Court noted that the EC had not established that the recovery of €8 per passenger was necessary in order to ensure the restoration of the situation which would have prevailed if the flights subject to the rate of €2 per passenger had been subject to the rate of €10 per passenger. It also considered that it was not possible for the airlines to recover retroactively from their customers the €8 per passenger which should have been collected and that the recovery of such an amount would be liable to create additional distortions of competition since it could lead to the recovery of more from the airlines than the advantage they actually enjoyed.

No amounts have been provided in respect of this matter.

European Union Regulation (EC) 261/2004
Aer Lingus complies with the requirements of European Union Regulation (EC) 261/2004 ("EU261") which establishes common rules on compensation and assistance to passengers in the event of denied boarding, cancellation or long delay of flights. The Directors note that the October 2014 decision of the UK Supreme Court in the case of Jet2.com Limited v. Huzar significantly limits the circumstances in which airlines can refuse to pay compensation under EU 261 due to an unforeseeable aircraft technical problem resulting in a delayed or cancelled flight. Currently, this decision is applicable in the United Kingdom only and it is not clear whether Courts or national enforcement bodies in other jurisdictions will adopt a similar approach. The Directors note that it is possible that further unforeseen claims could arise, specifically as a result of this judgement.

The Group has reflected the cost of valid EU261 passenger claims made to date in its financial statements however no provisions have been recognised in this regard.

Litigation and claims
The Group is party to various uninsured legal proceedings. The Group makes provision for any amounts for which it expects to become liable. At 31 December 2014, these provisions were less than the total amounts claimed by plaintiffs because the Group does not believe that it has any liability for the balance and the proceedings are being defended. In May 2013, Belfast International Airport issued proceedings in the High Court of Northern Ireland against Aer Lingus Limited seeking damages in respect of an alleged breach of contract in connection with the transfer by Aer Lingus Limited of its operations from Belfast International Airport to Belfast City Airport in 2012. Aer Lingus is contesting these proceedings and no amounts have been provided in respect of this matter.

Further disclosure required by IAS 37 is not made as the Directors believe that to do so could seriously prejudice the conduct and outcome of these proceedings.

31 Deferred Tax

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

	2014	2013
	€'000	€'000
Deferred tax asset to be recovered after more than 12 months	**79,215**	54,216
Deferred tax liability to be recovered after more than 12 months	**(56,265)**	(58,080)
Deferred tax asset/(liability)	**22,950**	(3,864)

	2014	2013
	€'000	€'000
Deferred tax (liability)/asset at 1 January	**(3,864)**	1,330
Income statement credit/(charge)	**15,776**	(5,433)
Tax credit directly to equity	**11,038**	239
Deferred tax asset/(liability) at 31 December	**22,950**	(3,864)

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

Deferred tax assets	**Provisions**	**Tax losses**	**Share based payments**	**IASS pension adjustment**	**Derivative financial instruments**	**Other**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
At 1 January 2013	2,358	54,776	-	-	-	-	57,134
(Charged)/ credited to the income statement	(996)	(2,377)	455	-	-	-	(2,918)
At 31 December 2013	1,362	52,399	455	-	-	-	54,216
(Charged)/ credited to the income statement	(867)	(8,426)	471	23,838	-	14	15,030
Credited directly to equity	-	-	-	-	9,233	736	9,969
At 31 December 2014	**495**	**43,973**	**926**	**23,838**	**9,233**	**750**	**79,215**

Deferred tax liabilities	Accelerated tax depreciation	Derivative financial instruments	Available-for-sale reserve	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2013	51,475	1,020	37	3,272	55,804
Charged to the income statement	2,306	-	-	209	2,515
(Credited)/charged directly to equity	-	(431)	(20)	212	(239)
At 31 December 2013	53,781	589	17	3,693	58,080
Credited to the income statement	(746)	-	-	-	(746)
Credited directly to equity	-	(589)	(17)	(463)	(1,069)
At 31 December 2014	**53,035**	**-**	**-**	**3,230**	**56,265**

The Group continues to hold unutilised capital losses forward of €1.3 million in respect of which no deferred tax asset is recognised (2013: €1.3 million).

The Directors are satisfied, based on expected future performance, as indicated by the Group's five year projections, that the recognition of the deferred tax assets is appropriate on the basis that their recoverability is probable.

32 Called-up share capital

	2014	2013
	€'000	€'000
Authorised		
900,000,000 ordinary shares of €0.05 each	**45,000**	45,000
Issued and fully paid		
At 1 January and 31 December	**26,702**	26,702

The total number of ordinary shares of €0.05 each in issue at 31 December 2014 was 534,040,090 (31 December 2013: 534,040,090) of which 1,303,384 (31 December 2013: 2,029,606) were treasury shares.

In February 2014, following the vesting of awards granted under the 2011 cycle of the Group's Long Term Incentive Plan ("LTIP") scheme the vested awards of participants were settled, resulting in 1,513,613 treasury shares being issued by the Group to LTIP participants. No new shares were subscribed for or purchased by ALG Trustee Limited during the year.

Share capital
The authorised share capital of the Group comprises ordinary shares.

Restriction on transfer of shares
The Directors, in their absolute discretion and without assigning any reason therefore, many decline to register any transfer of a share which is not fully paid or any transfer to or by a minor or person of unsound mind but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.

The Directors may also refuse to register any instrument of transfer (whether or not it is in respect of a fully paid share), unless it is: a) lodged at the Registered Office or at such other place as the Directors may appoint; b) accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; c) in respect of only one class of shares; and d) in favour of not more than four transferees.

Share rights
Subject to the Articles of Association of Aer Lingus Group plc the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall be distributed amongst the holders of ordinary shares, in proportion to the numbers of ordinary shares held by them, of the nominal value of their ordinary shares.

Restriction of rights
If the Directors determine that a "Specified Event" as defined in the Articles of Association of Aer Lingus Group plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of 14 days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Group or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

The Directors shall, where the shares specified in such notice represent not less than €0.25 per cent of the class of shares concerned, be entitled; to withhold payment of any dividend or other amount payable (including shares issuable in lieu of dividend) in respect of the shares specified in such notice; and/or to refuse to register any transfer of the shares specified in such notice or any renunciation of any allotment of new shares made in respect thereof unless such transfer or renunciation is shown to the satisfaction of the Directors to be a bone fide transfer or renunciation to another beneficial owner unconnected with the holder or holders or any person appearing to have an interest in respect of which a notice has been served.

Share Ownership Restrictions to protect Air Carrier Rights
Since the Company's entitlement to obtain or to continue to hold or enjoy the benefit of the licences, permits, consents or privileges that enable the Company to carry on business as an air carrier in Ireland and/or internationally (''the Company's air carrier rights''), can be adversely affected if too many of the Ordinary Shares are held by persons who are not regarded as EU nationals ("Non-Qualifying Nationals"), the Directors are given certain powers under the Articles of Association to take action to ensure that shareholdings of Non-Qualifying Nationals in the Company's share capital are not of such a size or type which could jeopardise the Company's air carrier rights. The Directors have the power to designate a maximum percentage of the Company's share capital (a ''Permitted Maximum'') which may be held by Non-Qualifying Nationals and have determined that this will initially be in excess of 45% but less than 50%. This percentage may be varied by the Directors from time to time.

Restrictions on the Disposal of London Heathrow Slots
The Articles of Association contain provisions requiring shareholder approval for the disposal of landing and departure slots allocated to the Company at London Heathrow Airport. If the Group proposes to dispose of any of the slots at London Heathrow that it was using in September 2006, it is required to notify shareholders in the manner set out in the Articles of Association, and shareholders representing 20% or more of the issued Ordinary Shares may require, within 28 days of notification, that the matter be submitted to an extraordinary general meeting. The disposal may proceed if at the extraordinary general meeting the relevant resolution is passed by not less than X% of the votes cast at such meeting (where "X" is equal to 100 minus the percentage of the Ordinary Shares held by the Minister for Finance at the record date of such meeting of the Company, expressed as a percentage of the total number of issued Ordinary Shares as at such record date, plus 5%) provided that if the value of "X" under this formula is greater than 75, "X" shall be deemed to be 75.

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

	2014	2013
	€'000	€'000
Share premium		
At 1 January	**359,449**	510,605
Capital reduction (see below)	**-**	(151,156)
At 31 December	**359,449**	359,449

	2014	2013
	€'000	€'000
Capital conversion reserve fund		
At 1 January	**-**	5,048
Capital reduction (see below)	**-**	(5,048)
At 31 December	**-**	-

	2014	2013
	€'000	€'000
Capital redemption reserve fund		
At 1 January	**-**	343,796
Capital reduction (see below)	**-**	(343,796)
At 31 December	**-**	-

During 2013, the High Court approved the creation of distributable reserves of €500 million in Aer Lingus Group plc. The effect of the creation of distributable reserves was the reduction in the capital conversion reserve fund and the capital redemption reserve fund (in each case reduced to nil), along with a further balancing reduction to the share premium account of €151 million.

	2014	2013
	€'000	€'000
Other reserves		
Cashflow hedging reserve		
At 1 January	**4,056**	7,069
Movement in the period	**(78,574)**	(3,443)
Deferred tax on movement in the period	**9,822**	430
At 31 December	**(64,696)**	4,056
Available-for sale reserve		
At 1 January	**123**	264
Movement in the period	**(134)**	(161)
Deferred tax on movement in the period	**17**	20
At 31 December	**6**	123
Treasury shares		
At 1 January	**(2,887)**	(5,615)
Exercise of LTIP awards	**981**	2,728
At 31 December	**(1,906)**	(2,887)
Share based payment reserve		
At 1 January	**6,315**	5,865
Exercise of LTIP awards	**(2,726)**	(3,607)
Movement in the period	**1,951**	3,219
Deferred tax on movement in the period	**-**	838
At 31 December	**5,540**	6,315
Retranslation reserve		
At 1 January	**(481)**	-
Retranslation of investment in Joint Venture	**1,244**	(481)
At 31 December	**763**	(481)
Total other reserves	**(60,293)**	7,126

Share premium
The share premium account arises from amounts paid up on issued share capital in excess of the nominal values of the shares issued.

Capital conversion reserve fund
The capital conversion reserve fund was attributable to the re-denomination of the nominal value of the Group's shares from punt to euro in 2000.

Capital redemption reserve fund
The capital redemption reserve fund balance was attributable to shares which were purchased and cancelled by the Group prior to its initial public offering for nil consideration pursuant to Sections 41(2) and 43 of the Companies (Amendment) Act, 1983.

Cash flow hedging reserve
The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax), principally relating to fuel and forward currency contracts.

Available-for-sale reserve
The available for sale reserve is attributable to the unamortised portion of fair value gains realised on the reclassification of available for sale bonds to loans and receivables in 2008. The reserve is amortised over remaining bond maturity periods.

Treasury shares
The treasury shares reserve comprises the cost of Aer Lingus Group plc ordinary shares held in order to fulfil awards under the Group's share based payment schemes.

Share based payment reserve
The reserve comprises amounts expensed in the Group income statement in connection with awards made or options issued under the Group's share based payment schemes, less any exercises or lapses of such awards or options.

In the Statement of financial position of the Company, the share based payment reserve reflects the increase in the Company's investment in Aer Lingus Limited in respect of awards granted to employees of Aer Lingus Limited, as consideration for services provided to the Company.

Retranslation reserve
The retranslation reserve comprises the retranslation of the Group's investment in a foreign denominated Joint Venture.

Outstanding options and awards

	Options		LTIP Schemes	
	2014	2013	**2014**	2013
Awards outstanding at 1 January	**1,500,000**	1,500,000	**11,752,553**	12,674,629
Forfeitures during the year	**-**	-	**(1,821,331)**	(84,000)
Exercised/vested during the year	**-**	-	**(1,513,613)**	(3,948,076)
Lapsed or expired during the year	**(500,000)**	**-**	**(3,018,165)**	**-**
Grants during the year	**-**	-	**4,204,963**	3,110,000
Awards outstanding at 31 December	**1,000,000**	1,500,000	**9,604,407**	11,752,553
Exercisable at year end	**1,000,000**	1,000,000	**NIL**	NIL
Range of exercise price (€)	0.573 - 0.677	0.573 - 0.886	N/A	N/A
Remaining exercisable life of options	4.7 years	5.7 years		
Remaining weighted average contractual life of shares			2 years	2 years

Long Term Incentive Plan ("LTIP")
The Group operates an LTIP in respect of certain Executive Directors and senior managers, which is designed to further align the interests of such executives and senior managers with those of shareholders. The LTIP is a share based performance award scheme, which provides for the vesting of shares subject to the achievement of minimum performance objectives measured over a three year period. The LTIP is tied to achievement of both a targeted Business Performance Measure (selected by the Remuneration Committee) and to Total Shareholder Return (TSR). The TSR element is assessed against a peer group of European airlines and the companies of the ISEQ general index. The Business Performance Measure is set by the Remuneration Committee, as described below. The maximum award under the LTIP is 150% of base salary. Under the rules of the scheme the maximum number of shares that can vest is 125% of the initial award. However, the Committee determined that for awards since 2012, the maximum number of shares that will be capable of vesting is 100% of the awards

Under the terms of the Group's LTIP an early vesting of an award may occur at the discretion of the Remuneration Committee on a change of control of the Company. As at the reporting date, 1,303,384 shares (2013: 2,029,606 shares) are held as Treasury Shares in respect of the LTIP and are registered in the name of ALG Trustee Limited. Any voting rights attaching to the shares are exercised in the absolute discretion of the ALG Trustee Limited having regard to the interests of the LTIP participants. ALG Trustee is consolidated in the Group accounts and the shares are shown in the statement of financial position as a deduction from the Group's equity.

In February 2014, following the vesting of the awards granted under the 2011 cycle of the Group's LTIP, the vested awards of participants were settled which resulted in 1,513,613 treasury shares being issued to LTIP participants.

For awards issued in 2014, the Remuneration Committee set the Business Performance Measure which must be achieved in addition to the TSR measure before any award can vest as positive cumulative EBITDAR (before exceptional items) of, or in excess of €100 million during the performance period and positive EBITDAR as shown in the Company's consolidated financial accounts in the final year of the performance period (before exceptional items). Conditional awards granted under the Company's LTIP in the year ended 31 December 2014 amounted to 4,204,963 ordinary shares (2013: 3,110,000). The share price was €1.33 (2013: €1.53) at the date of the award and fair value was determined to be €0.84 (2013: €0.98).

Shares awarded under the Group's LTIP are equity settled share based payments as defined in IFRS 2, *Share Based Payments*. IFRS 2 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 €1.9 million (2013: €3.2 million) reported in the income statement has been arrived at through applying a Monte Carlo simulation technique to model the combination of market and non-market based performance conditions of the plan.

Impact on income statement

The LTIP expense (net of pre-vesting forfeitures) of €1.9 million (2013: €3.2 million) is analysed as follows:

	2014	2013
	€'000	€'000
2011 Long Term Incentive Plan		
Staff costs	-	982
2012 Long Term Incentive Plan		
Staff costs	308	1,158
2013 Long Term Incentive Plan		
Staff costs	497	1,018
2014 Long Term Incentive Plan		
Staff costs	1,123	-
Total	1,928	3,158

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 as at their grant date:

The 2012 awards will expire no later than 12 months after the end of their performance period, being the end of 2015.

The 2013 awards will expire no later than 12 months after the end of their performance period, being the end of 2016.

The 2014 awards will expire no later than 12 months after the end of their performance period, being the end of 2017.

	2014 award	2013 award	2012 award
Average risk free interest rate for peer group	0.29%	0.99%	1.74%
Expected volatility	29.20%	36.40%	46.20%
Dividend yield	3.01%	4.58%	0.00%

Expected volatility was determined by calculating the historical volatility of the Company's share price, for a historical period commensurate with the expected life of the awards, ending on their valuation date.

Share options

On 8 September 2009, Mr. Christoph Mueller was granted share options in respect of 1,500,000 shares. The exercise price in respect of the options over 500,000 shares which became exercisable on 7 September 2012 and are exercisable until 7 September 2019 is €0.573 per share; and the exercise price in respect of the options of 500,000 which became exercisable on 7 September 2013 and are exercisable until 7 September 2019 is €0.677 per share. In September 2014, the final tranche of 500,000 share options became exercisable subject to the achievement of a closing market share price of €2.20 on at least 25 days of the 40 days to 7 September 2014. The exercise price in respect of this tranche of options was €0.886. This target was not achieved and the 500,000 share options lapsed.

The share options granted during 2009 are equity settled share-based payments as defined in IFRS 2, *Share-based Payments*. The accounting standards require that a recognised valuation methodology be employed to determine the fair value of share options granted and stipulates that this methodology should be consistent with methodologies used for the pricing of financial instruments. The expense of €23,467 (2013: €66,463) reported in the income statement within staff costs has been arrived at through applying a binomial lattice option-pricing model. The weighted average fair value of the share options granted in 2009 at the measurement date was €0.37 per share. The inputs used in the option pricing model included a share price of €0.58 per share, a dividend yield of 0%, a risk free rate of 4.70% and volatility of 50.63%.

Company

	2014	2013
Share based payment reserve	€'000	€'000
At 1 January	6,315	5,865
Exercise of LTIP awards	(2,726)	(3,607)
Share based payment reserve	1,951	4,057
At 31 December	5,540	6,315

34 Employee participation

Employee Share Ownership Trust ("ESOT")

As at 31 December 2014, Aer Lingus Group plc holds 94,701 shares of Aer Lingus Group plc shares (0.02% of the issued share capital) (2013: 102,907 shares) on trust for the benefit of certain beneficiaries (those that cannot be located and certain deceased beneficiaries). The Aer Lingus ESOP Trustee Ltd (Trustee of the ESOT) approved the transfer of these shares, previously held in the Aer Lingus Approved Profit Sharing Scheme, as well as some surplus monies also held by the ESOT to Aer Lingus Group plc in 2013, prior to winding up of the scheme and dissolution of the trustee in 2014. Aer Lingus Group plc holds the shares on trust for the beneficiaries. As referred to in Note 23, these monies are being held as restricted cash in Aer Lingus Group plc pending distribution to the beneficiaries of the ESOT.

35 Cash generated from operations

	2014	2013
	€'000	€'000
(Loss)/Profit before tax	**(111,509)**	39,558
Adjustments for:		
- Depreciation and amortisation	**89,952**	82,927
- Net movements in provisions for other liabilities and charges	**13,340**	(7,393)
- Provision for IASS solution - once-off pension contribution	**190,700**	-
- Share of profit of joint venture	**(611)**	(6)
- Net fair value losses/ (gains) on derivative financial instruments	**4,979**	(738)
- Share awards and options	**722**	(696)
- Finance income	**(9,934)**	(10,837)
- Finance expense	**13,686**	15,075
- Other gains - net	**(27,008)**	(14,483)
- Net exceptional items - profit on disposal of assets	**-**	(1,943)
- Post employment benefit obligations (excluding net exceptional items)	**3,058**	757
- Net exceptional items - post retirement income streaming	**(21,674)**	-
Changes in working capital		
- Inventories	**(702)**	(304)
- Trade and other receivables	**(14,740)**	(16,761)
- Trade and other payables	**44,664**	15,932
Cash generated from operations	**174,923**	101,088

Company	**2014**	2013
	€'000	€'000
(Loss)/Profit before tax	**(2)**	27
Adjustments for:		
- Finance income	**-**	(31)
- Increase/(decrease) in trade and other payables	**293**	-
Cash generated from/(used in) operations	**291**	(4)

36 Financial commitments

(a) Capital commitments

At 31 December, the Group had capital commitments as follows:

	2014	2013
	€'000	€'000
Contracted for but not provided		
- Aircraft and equipment	**849,249**	794,625
- Other	**4,542**	3,066
	853,791	797,691

Included within capital commitments in respect of aircraft and equipment are unhedged amounts denominated in US dollars of US$820 million (2013: US$857 million). These have been translated at the appropriate rate of $1.22 (December 2013: $1.37).

(b) Lease commitments

At 31 December 2014, the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property	Aircraft
	€'000	€'000
No later than one year	**9,186**	**70,559**
Later than one year but no later than five years	**29,675**	**93,892**
Later than five years	**30,334**	**6,790**
	69,195	**171,241**

Included within aircraft lease commitments are amounts relating to the damp lease agreements executed during the period to 31 December 2014 in respect of Boeing 757 aircraft.

Three of the aircraft which the Group holds under operating leases are subleased to a third party. The termination of these subleases has been confirmed for 26 September 2015. Minimum amounts receivable under the subleases are €16 million at 31 December 2014, of which the full amount is due in less than 1 year.

At 31 December 2013, the Group had commitments, under non-cancellable operating leases, which fall due as follows:

	Property	Aircraft
	€'000	€'000
Not later than one year	8,191	55,526
Later than one year but no later than five years	29,760	118,857
Later than five years	38,340	1,586
	76,291	175,969

37 Related party transactions

Key management compensation[1]

	2014	2013
	€'000	€'000
Short-term employee benefits	**5,882**	5,306
Post employment benefits	**612**	530
Termination benefits	**1,060**	440
Share-based payments	**766**	1,727
	8,320	8,003

[1] Key management compensation comprises all amounts in respect of Directors, Non Executive Directors and members of the executive management team.

Of the total amount of key management compensation, €1,800,713 (2013: €1,097,115) was outstanding at 31 December 2014.

Amounts due to the Company from subsidiary undertakings are disclosed in Note 22.

Amounts which were transferred to the Company from a subsidiary undertaking are discussed in Note 34.

The Company's investment in its subsidiaries is set out in Note 38.

The Company's contributions to its post employment benefit obligations are disclosed in Notes 26 and 27.

Contributions and commitments in respect of the Company's joint venture are disclosed in Note 17.

The Company considers Pay and Shop Limited (trading as "Realex Payments") to be a related party for the purposes of IAS 24 by virtue of the fact that Mr. Laurence Crowley was Chairman and a Non-Executive Director of Realex Payments as at 31 December 2014, and also was and still is a Non-Executive Director of Aer Lingus Group plc. The Company engages Realex Payments to provide on-line payment solutions. The Company's business relationship with Realex Payments predates the appointment of Mr. Crowley as Chairman of Realex Payments. During the year, the Company incurred expenditure of €531,779 (2013: €531,882) on services provided by Realex Payments. At the reporting date, there was a balance of €70,726 outstanding to Realex Payments from the Company (2013: €77,125). These amounts are recorded in trade payables. Mr. Laurence Crowley retired as Chairman and a Non-Executive Director of Realex Payments effective on 25 March 2015.

The Company also considers Avio-Diepen B.V. (trading as "Avio-Diepen") to be a related party for the purposes of IAS 24 by virtue of the fact that Mr. Bernard Bot, President of the Supervisory Board of Avio-Diepen, is also the Chief Financial Officer and an Executive Director of Aer Lingus Group plc. The Company engages Avio-Diepen to provide aircraft parts and services. The Company's business relationship with Avio-Diepen predates the appointment of Mr. Bot as Chief Financial Officer of the Group and Company. During the year, the Company incurred expenditure of €101,036 (2013: €135,577) on goods and services provided by Avio-Diepen. At the reporting date, there was a balance of €5,244 outstanding to Avio-Diepen from the Company (2013: €1,217). These amounts are recorded in trade payables.

The Minister for Finance of Ireland holds 25.11% of Aer Lingus Group plc's issued share capital and is entitled to appoint three directors to the Board. The Company considers that, for the purpose of IAS 24 (2009) the Government of Ireland is in a position to exercise significant influence over it, and therefore regards the Government of Ireland and various of its bodies, including the daa, An Post and Tourism Ireland, as related parties for the purpose of the disclosures required by IAS 24 (2009).

The Company has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transactions with the daa, Tourism Ireland or An Post.

A summary of the Company's transactions with the Government of Ireland and its bodies is included below:

- The Company incurs rental charges in respect of office space, check-in facilities and other operational facilities at various Irish airports. The Company also incurs passenger, landing and other charges for the use of these airports. The Company incurs air navigation charges as a result of services provided by the Irish Aviation Authority;
- The Company collects Airport Departure Tax and various payroll taxes on behalf of the Irish Revenue Commissioners and is liable to Irish Corporation Tax on profits earned, and to employer's PRSI on its payroll. The Company accounts for VAT in Ireland;
- The Company sells seats on its scheduled services to various Government bodies in the normal course of its business and has banking relationships with institutions now controlled by the Irish government. As an airline, the Irish Department of Transport is the Company's principal regulator;
- Tourism Ireland and the Company engage in co-marketing activities; and
- The Company utilises postal services in the normal course of its business from An Post, whose chairman is Christoph Mueller, the former Chief Executive Officer of Aer Lingus Group plc.

In addition to the transactions described above, during 2012 the Company provided a guarantee to the SAA in connection with the assignment of its interest in the lease of a hangar facility at Shannon airport. Under the terms of this arrangement, Aer Lingus has provided a guarantee to the SAA in respect of rents that would otherwise have been payable by the Group under the lease up to 31 July 2021. In January 2015, Transaero entered into examinership and there is a likelihood that the SAA will enforce the guarantee. See Note 39 for more detail on this.

38 Investments in subsidary undertakings

	2014	2013
	€'000	€'000
Cost		
At 1 January	**250,330**	246,273
Investment in Aer Lingus Limited	**1,951**	4,057
At 31 December	**252,281**	250,330

During 2014, the Company made an investment of €1.9 million (2013: €4 million) in Aer Lingus Limited to reflect the increase in the Company's investment in Aer Lingus Limited in respect of awards granted to employees of Aer Lingus Limited, as consideration for services provided to Aer Lingus Limited.

39 Events after the reporting period

On 26 January 2015, the Board of Directors of Aer Lingus (the "Board") announced that it had received a proposal from International Consolidated Airlines Group, S.A. ("IAG") which values each Aer Lingus share at €2.55 comprising an all cash offer for the Company of €2.50 per share and a cash dividend of €0.05 per share (the "Revised Proposal"). On 27 January 2015, the Board indicated that the financial terms of IAG's Revised Proposal were at a level that the Board would be willing to recommend subject to being satisfied with the manner in which IAG proposed to address the interests of relevant parties. The Revised Proposal remains conditional on, amongst other things, confirmatory due diligence, the recommendation of the Board of Aer Lingus and the receipt of irrevocable commitments from Ryanair Limited and the Minister for Finance of Ireland to accept the offer, all of which may be waived in whole or in part by IAG. On 13 February 2015, the Board of Directors of Aer Lingus announced that the IAG proposal represents a compelling and significantly positive opportunity for Aer Lingus, its employees, its customers and for Ireland, in particular, that it would enhance Ireland's position as a natural hub for Europe on the North Atlantic; accelerate Aer Lingus' transatlantic, long haul growth plans; enhance short haul growth; grow employment; strengthen Ireland's connectivity and provide access to a global cargo network. There can be no certainty that any offer will be made.

Given Aer Lingus' improved operating performance in 2014 compared to 2013, the Board has agreed to recommend to shareholders that this increased profitability should be translated into a return of value to shareholders in the form of an increase in the annual dividend from four cent per share (paid in respect of 2013) to five cent per share (payable in respect of 2014). This proposed dividend of five cent per share will be payable to shareholders regardless of whether the proposed IAG offer proceeds. In the event that the IAG offer does proceed, the proposed dividend will equate to the cash dividend of five cent per share which is part of the IAG offer.

In December 2012, the Group entered into an agreement for the assignment of its interest in the lease of a hangar facility at Shannon Airport. Under the terms of this arrangement, Aer Lingus has provided a guarantee to the SAA in respect of rents that would otherwise have been payable by the Group under the lease up to 31 July 2021. The Group estimates the maximum amount payable would be approximately €3.1 million in the event that the guarantee was called. In previous years, the Group had disclosed this guarantee as a contingent liability. In January 2015, Transaero entered into examinership and there is a likelihood that the SAA will enforce the guarantee. As this provided evidence that the conditions existed at the balance sheet date, management determined that the remaining lease obligations guaranteed by Aer Lingus are an 'onerous lease' requiring recognition of a provision. Management will endeavour to mitigate this risk depending on the outcome of the Transaero examinership process.

On 5 February 2015, the European General Court annulled the EC's decision regarding air travel tax in so far as it ordered the recovery of the aid from the beneficiaries for an amount set at €8 per passenger. Refer to Note 30 for more detail on this development.

The UK Court of Appeal rejected Ryanair's appeal on 12 February 2015. The Court also refused permission for Ryanair to appeal to the Supreme Court. Ryanair has stated that it intends to apply to the Supreme Court for permission to appeal. It is not currently known when this request will be considered by the Supreme Court or whether the Supreme Court will grant such permission to appeal.

On the 16 February 2015, Mr. Stephen Kavanagh's appointment as Chief Executive Officer of Aer Lingus Group plc with effect from 1 March 2015 was announced.

On the 28 February 2015, Mr. Christoph Mueller resigned as Chief Executive Officer of Aer Lingus Group plc.

As noted in Note 26, 42% of waivers have been received as at 24 March 2015. Therefore, the €190.7 million provision for the once-off contribution (as discussed in Note 29 and Note 10 (d)) has reduced by approximately €80.2 million and the post retirement income streaming pension obligation (as discussed in Note 27 and Note 10 (e)) has reduced by approximately €7.4 million at 24 March 2015.

There have been no other significant events occurring after the reporting period, up to and including the date of approval of the financial information within this annual report by the Board of Directors.

Shareholder Information (unaudited)

2015 financial calendar

Annual General Meeting	1 May 2015
2015 H1 period ends	30 June 2015
2015 H1 results	July 2015
2015 FY ends	31 December 2015

Share price data

	€
Share price movement during 2014	
- High	2.25
- Low	1.25
Share price at 31 December 2014	2.21
Market capitalisation at 31 December 2014	1,178.1 m
Share price at 17 March 2015	2.32
Market capitalisation at 17 March 2015	1,239.0m

Shareholder analysis at 31 December 2014

Range of share held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	464,913,324	87.1%	78	1.2%
100,001-250,000	6,301,444	1.2%	41	0.6%
10,001-100,000	48,313,689	9.0%	2,321	34.8%
Up to 10,000	14,511,633	2.7%	4,218	63.4%
Total	534,040,090	100%	6,658	100.0%

Shareholder analysis at 17 March 2015

Range of share held	Number of shares	% of shares	Number of accounts	% of accounts
Over 250,000	471,068,772	88.2%	82	1.3%
100,001-250,000	4,440,672	0.8%	28	0.4%
10,001-100,000	44,568,294	8.4%	2,115	33.1%
Up to 10,000	13,962,352	2.6%	4,168	65.2%
Total	534,040,090	100%	6,393	100.0%

Share listing

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

ISIN: IE00B1CMPN86
ISE Xetra: Aer Lingus Group plc
MNEM – ISE: EIR1
MNEM – LSE: AERL
Bloomberg: AELGF
Reuters: AERL.I, AERL.L

Crest

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

Electronic proxy voting and CREST voting

Shareholders may lodge a proxy form for the 2015 Annual General Meeting electronically. Shareholders who wish to submit proxies via the internet may do so by accessing the Registrars' website (see below). Instructions on using the service are sent to shareholders with their proxy form. Shareholders must register for this service on-line before the electronic proxy service can be used.

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.

Website

The Group's corporate website, http://corporate.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:

Catherine McGuinness

T: +353 1 886 2892

E: investor.relations@aerlingus.com

Jonathan Neilan

FTI Consulting

T: +353 1 663 3686

E: aerlingus@fticonsulting.com

Registered office and number

Number: 211168

Dublin Airport

Co. Dublin

Ireland

Registrars

For all queries on shareholdings please contact our registrars:

Capita Asset Services, Shareholder Solutions (Ireland),

2 Grand Canal Square

Dublin 2

Ireland

T: +353 1 553 0050

F: +353 1 224 0700 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.capitashareportal.com

Company officers and advisors

Directors

Colm Barrington (Chairman)

Bernard Bot (Chief Financial Officer)

Montie Brewer (Non-Executive Director)

Laurence Crowley (Non-Executive Director & Senior Independent Director)

Emer Gilvarry (Non-Executive Director)

John Hartnett (Non-Executive Director)

Stephen Kavanagh (Chief Executive Officer)

Nigel Northridge (Non-Executive Director)

Frank O'Connor (Non-Executive Director)

Nicola Shaw (Non-Executive Director)

William Slattery (Non-Executive Director)

Nicolás Villén (Non-Executive Director)

Company secretary

Meabh Gallagher

Independent auditors

PricewaterhouseCoopers

Chartered Accountants & Registered Auditors

One Spencer Dock

North Wall Quay

Dublin 1

Ireland

Legal advisors

Arthur Cox

Earlsfort Terrace

Dublin 2

Ireland

Sponsors

Investec Bank plc (Irish Branch)

The Harcourt Building

Harcourt Street

Dublin 2

Ireland

Operating and Financial Statistics

For the year ended 31 December 2014

	2014	2013	Change	2012	2011	2010
Mainline long haul						
Number of routes flown	8	6	33.3%	6	6	8
Number of sectors flown (flights)	5,934	4,413	34.5%	3,896	3,809	3,805
Average sector length (in kilometres)	5,391	5,240	2.9%	5,223	5,254	5,258
Number of passengers (in thousands)	1,324	1,098	20.6%	979	897	908
Average fare (including airport charges/taxes)(in €)	370.04	347.52	6.5%	350.82	319.96	304.10
Utilisation (average block hours per aircraft per day)	12.8	12.1	5.8%	12.3	11.7	10.4
RPKs (in millions)	7,195	5,770	24.7%	5,130	4,720	4,766
ASKs (in millions)	8,600	6,944	23.8%	6,221	6,084	6,081
Passenger load factor (flown RPKs per ASKs)	83.7%	83.1%	0.6 ppts	82.5%	77.6%	78.4%
Average number of aircraft	9.1	6.9	31.9%	6.0	6.3	7.2
Scheduled cargo tonnes	21,016	20,200	4.0%	20,869	20,839	23,781
Mainline short haul						
Number of routes flown	83	86	(3.5%)	91	89	98
Number of sectors flown (flights)	65,620	66,976	(2.0%)	67,730	66,649	64,306
Average sector length (in kilometres)	1,015	1,010	0.5%	1,041	1,053	1,046
Number of passengers (in thousands)	8,442	8,527	(1.0%)	8,674	8,616	8,438
Average fare (including airport charges/taxes)(in €)	93.70	92.53	1.3%	94.11	90.65	85.90
Utilisation (average block hours per aircraft per day)	9.4	9.5	(1.1%)	9.5	9.5	9.3
RPKs (in millions)	8,893	9,037	(1.6%)	9,393	9,331	9,129
ASKs (in millions)	11,773	11,954	(1.5%)	12,464	12,509	12,188
Passenger load factor (flown RPKs per ASKs)	75.5%	75.6%	(0.1) ppts	75.4%	74.6%	74.9%
Average number of aircraft	36.0	36.4	(1.1%)	37.4	36.8	36.0
Scheduled cargo tonnes	5,988	6,154	(2.7%)	7,271	6,817	8,843

Reimagined

Redesigned

Redefined...

BUSINESS
CLASS

Aer Lingus