

AL Second Scheme

Trustees Limited

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Mr. Liam Berney
Irish Congress of Trade Unions
31/32 Parnell Square
Dublin 1

The Second Aer Lingus Supplementary Scheme (“the Scheme”) – Potential wind-up

Dear Brian & Liam

I refer to the above matter and to previous correspondence between us dating back to 25 August 2014 concerning the future of the Second Scheme.

In light of the recent and significant changes introduced to the Irish Airlines (General Employees) Superannuation Scheme (the “IASS”) and in considering the impact of these changes on the Second Scheme, the Trustee thought it might be helpful, at this stage, to set out a brief history of the Second Scheme including the purpose for which it was established and the reasons why the Trustee is currently giving consideration to winding it up. We have also included some additional information on matters ancillary to the potential winding-up to supplement any communications or discussions you may be having with your employees / members.

In summary, the Second Scheme was established by Aer Lingus in 2007 to supplement benefits under the IASS in circumstances where the IASS was not in a position to pay pension indexation increases or where the pension increases paid were less than the rate of increase in the cost of living.

The increases payable from the Second Scheme are classified as supplementary benefits payable at the discretion of the Trustee in respect of service with Aer Lingus after 2007.

The Second Scheme was funded by the payment of an initial lump sum from Aer Lingus in the amount of €34 million and the payment of an on-going employer contribution of 4% of salary for each contributing member. Members contributed at a rate of 2% of salary.

In addition to the Second Scheme, the First Aer Lingus Supplementary Scheme was established by Aer Lingus in 2007 to provide pension increases in respect of service with Aer Lingus before 1 January 2007. This scheme was also funded by the payment of a once-off lump sum contribution by Aer Lingus of €70 million. Like the Second Scheme, the increases payable from the first scheme are classified as discretionary supplementary benefits.

Both supplementary schemes were established under trust, meaning that the assets of the schemes are held separately from the assets of Aer Lingus and are under the control of the trustees of each scheme. The schemes' assets are held for the benefit of the schemes' beneficiaries and may not be used for any purpose other than that set out in the trust documentation establishing and governing the schemes, which is binding. All decisions relating to the investment of scheme assets and the distribution of benefits are matters for the trustees of each scheme, not Aer Lingus.

As part of the solution to address the funding issues in the IASS, the benefits of the IASS were restructured with effect from 31 December 2014 under the terms of a Section 50 Direction from the Pensions Authority.

As part of that exercise, the IASS was frozen to future service accrual with effect from 31 December 2014 and therefore from that date, the IASS no longer had any active members. This, in turn, means that the Second Scheme has little or no purpose as it was established to provide pension increases to members who were in receipt of pensions under the IASS for service after 1 January 2007. Furthermore, the cessation of contributions under the IASS in December 2014 triggered an automatic cessation of contributions under the Second Scheme.

These issues and the impact of the proposed IASS changes on the Second Scheme were first addressed in your letter of 25 August 2014 to the Trustee. In that letter you stated that the preference of both Aer Lingus and the stakeholder Unions would be for the Second Scheme to be wound up and for the assets to be distributed in the interests of members, subject to the terms of the Second Scheme's legal governing documentation.

It is in this context that the Trustee began its considerations on the future of the Second Scheme, including its potential winding-up. These discussions have been advanced in recent months during which the Trustee has been actively exploring the possibility of winding-up the Second Scheme. To this end we have obtained detailed legal and actuarial advice as it has become apparent that winding up the Second

Scheme will not be a straightforward matter. For example, the Trustee has been advised that the Second Scheme's governing trust documentation and Actuarial Protocol will require amendment in order to facilitate the winding-up of the Second Scheme. Therefore, while a final decision has yet to be taken on the issue, the Trustee is continuing to work closely with its advisers, with a view to making a final decision as soon as possible. All things being equal, it is currently the Trustee's intention to wind-up the Second Scheme.

As you will be aware the Second Scheme has, over the years, been successful in achieving its objective of providing discretionary pension increases to Aer Lingus pensioners with service in the company post 2007 and to this end, the Trustee has at all times acted to ensure that the members' best financial interests were served by the Second Scheme.

In this regard, the Trustee is pleased to report that the Second Scheme's investments have performed satisfactorily in line with the strategic guidelines established by the Trustee. The net asset value of the Second Scheme as at 31 March 2014 was €90.9 million. This value is expected to have risen to approximately €108 million for the year ended 31 March 2015. In the event of a winding-up, the Trustee notes that Aer Lingus has indicated that it will not seek the return of its initial funding of the Second Scheme and as a result all of the Second Scheme's assets will be available for distribution to the Second Scheme's beneficiaries.

Until any such winding-up the Trustee, in conjunction with its investment consultant, will continue to actively and prudently manage the Second Scheme's assets and will maintain the on-going governance structure and processes which are currently in place for the Second Scheme. The Trustee is aware that in the context of a wind-up it will be necessary to convert all scheme assets into cash prior to any distribution or transfer of funds. It will also be necessary to consider how the assets should be invested in the interim and if the stated investment strategy should be altered. The Trustee is carefully considering these issues at present and is mindful that the opportunity for the continued growth of the assets must be balanced against the corresponding opportunity for loss.

As previously outlined, the assets of the Second Scheme are held for the benefit of the Second Scheme's beneficiaries. In the event of a wind-up, it will not be possible for IASS members who have not yet retired to receive cash payments. Instead, all wind-up payments in respect of such members will be in the form of transfer payments to occupational pension schemes, or to similarly regulated pension products.

In relation to the format of benefit payments for the small number of existing pensioners of the Second Scheme, the advice received by the Trustee to date is that it will, more than likely, be required to purchase annuities on their behalf. However, the Trustee, in conjunction with its advisors, is continuing to investigate if there are other more flexible benefit options available which would be permissible for

use in these circumstances. We have been advised that the use of any such alternative options will require the approval of the Revenue Commissioners.

As you are aware, there will be expenses associated with the winding-up exercise and these will be borne by the Second Scheme. This is provided for in the Second Scheme's legal governing documentation which specifically provides that all the costs and expenses of and incidental to wind-up will be paid from the funds of the Second Scheme. These costs will include, but are not limited to, actuarial, administrative and legal expenses. While the Trustee is mindful that expenses will be borne by the Second Scheme, and will therefore make every effort to minimise these expenses, the Trustee must obtain the appropriate advices and support to conclude the exercise in an orderly and compliant manner.

The Trustee will continue to liaise with its advisers in relation to the potential wind-up of the Second Scheme and will advise the key stakeholders when a final decision has been made. A Trustee communication to members will also be issued in due course and when there is more certainty on the matters outlined above.

I trust this additional information may be of use but please let me know if you have any questions with which I may be able to assist.

Yours sincerely

Paul Kelly
Chairman of AL Second Scheme Trustees Limited