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Dear Greg/Dermot

Pensions meeting 11 September

At the meeting held 11 September attended by you and representatives from Dublin, Cork and Shannon Airports, I stressed the importance, for all parties, of moving ahead with the proposed pension solution recommended by the Expert Panel.

It is now three months since the Expert Panel issued its recommendations by way of a final opportunity to resolve the pensions issues we face.

Within a further three months the Trustee will have completed its consultation process and have commenced the process of cutting benefits and closing the scheme to ongoing contributions and pensionable service to be effective from 31 December 2014.

Next week the IASS Trustee will commence the Section 50 consultation process on its proposed changes. In tandem with this, daa needs to communicate to staff our proposals, reflecting in full the recommendations of the Expert Panel, which will mitigate the Trustee's benefit reductions. As you are aware, Aer Lingus has also agreed with its main trade unions to proceed with its proposals and seek a positive ballot on these.

One of the effects of the IASS Trustee proposals is that no pension contributions can be made into the IASS after 31 December 2014, and no future pension accrual will take place in that scheme. It is critical that the implications of the Company's proposals to mitigate the effects of the Trustee proposals are communicated to all affected staff and, in order for the Company proposals to be effective, are agreed and implemented. Failing this, daa staff will be in the unenviable position of having no effective means of mitigating the impact of the IASS Trustee proposals to both cut and freeze accrued benefits.

At this critical juncture, and as we commence the communications phase, I am writing to you to set out in clear terms the implications of the possible outcomes that may result.

The three possible circumstances that could prevail from the beginning of January next, which I set out, are as follows:

1. Agreement is reached with our trade unions and staff

After the Trustee proceeds with its cuts to and freezing of the IASS at the end of 2014, upon acceptance, the Company transfers each individual's capital sum into their personal defined contribution (DC) account, thereby significantly mitigating the effect of the benefit reductions under the Trustee proposals for the c1,400 employees affected. The Company also makes higher percentage on-going contributions to the new DC scheme in respect of these employees. Some 1,200 other daa Group staff, not currently in a pension scheme, may join the new DC scheme and make provision for their future pension.

As well as this very significant capital investment of over €60m in respect of our employees, the Group will essentially be doubling (i.e. €120m) this level of investment when its annual commitment to enhanced pension contributions and related income continuance protection for staff is taken account of.

In the future, considerably more of the regular pay (i.e. shift pay) of staff will be pensionable and will therefore attract company pension contributions. Some 2,600 staff will have access to a single Group pension scheme, with a uniform contribution structure.

2. The Expert Panel proposals are rejected and no agreement is reached; daa establishes a new DC pension scheme and agrees to contribute to DC at current levels which employees elect to join

The Trustee proceeds with its cuts but the Expert Panel recommendations are rejected resulting in no agreement being reached between the Company and staff/trade unions. The effect of this will be that the IASS cuts pension benefits in respect of past service but the Company will not be making the proposed capital sums by way of mitigation and no investment returns will be earned on these funds. In these circumstances, there will be a more limited form of DC pension provision for the future than that available under the current proposals i.e. on-going employer pension contributions (into the new DC scheme) will only be at the current rates rather than the higher rates proposed by the Expert Panel. Individuals will have to apply to join to the new scheme.

daa's total investment - some €120m as set out in (1) above - will be lost to staff, together with the investment returns which could have been earned from this investment.

This option also carries the attendant risk that the final Section 50 cuts made by the IASS Trustee to staff accrued pensions are deeper than those currently proposed, in particular if the Company's proposals for deferred members do not proceed. The financial implications of this additional risk crystallising are very significant.

3. No agreement is reached and employees who are currently IASS members do not elect to join a new DC scheme

This is a variant of (2) above, but one where individual employees do not access the DC scheme, accumulating no further pension benefits, foregoing future company pension contributions, together with the associated tax deductions on individual contributions and the investment returns which may be earned on both.

If all staff were to so decide, in addition to the €120m of daa investment foregone in (2), the benefit of any pension contribution in respect of future service will be lost, at a further cost to staff of some €70m over time, i.e. closer to €200m in aggregate. Again, the further risk remains that the final IASS Trustee cuts are higher than those currently proposed.

As indicated above, the implication of the choices now facing us all are of truly enormous proportions. Not only does Option 1 deliver a fair basis for achieving a final and long term resolution to the complex issues involved, but it avoids alternatives which are clearly and demonstrably to the serious disadvantage to staff.

Other matters

I indicated when we met that daa was prepared to give favourable consideration to Perfect Pension Partners Programme and governance proposals made by Congress and/or the trade unions with regard to the new DC scheme.

I also confirmed at the meeting that the Expert Panel report has not given any staff grouping a veto on the proposed way forward. This is also the view of the Expert Panel as confirmed to daa. daa alone has the choice to proceed with the proposals, which affect all 2,600 of our employees, a choice which the Company may decide to exercise having regard to what our staff have to say on these proposals.

As I committed at our recent meeting, daa will work with you and your colleagues to bring this matter to a conclusion as soon as possible. I understand that meetings have now taken place on APFS matters (on a without prejudice basis), in particular with regard to the implementation of a medical/fitness testing process and phasing-in arrangements and that further engagement is planned soon.

In the meantime, I have written to staff indicating to them that details of our proposals¹ will issue next week with staff presentations and individualised information to follow. By the time

¹ These documents were prepared before the current discussions with APFS commenced. A further APFS specific document for Dublin, Cork and Shannon Airports will issue in due course.

that the Proposal Guides issue next week, I hope that Congress and all of the trade unions with members in daa will:

- (a) indicate that they will ballot their members who are employees of the Company on whether to accept the proposals and
- (b) accept the Company's offer of support to provide relevant information or other technical support, for the purpose of the trade unions pro-actively and publically supporting approval and implementation of the proposals in line with the Expert Panel report.

Yours sincerely



Kevin Toland
Chief Executive Officer

cc Liam Berney, ICTU, Matt Staunton, IMPACT, Brendan O'Hanlon, Mandate, Ian McDonnell, TEEU, Brian Gormley, Unite