

RYANAIR/AER LINGUS MERGER INQUIRY

Consolidated summary of hearings with three financial institutions holding shares in Aer Lingus, held in March 2013

Background

1. Shareholders A and B were investment management firms which managed a large range of investment portfolios on behalf of investor clients.
2. Shareholder C was [REDACTED].
3. Shareholder C had invested in Aer Lingus on behalf of clients since 2006.

Aer Lingus

4. Shareholder A's view was that the airline industry was consolidating and Aer Lingus operated strongly, making its shares an attractive investment.
5. Shareholder A purchased shares in Aer Lingus as it considered it to be undervalued due to its valuable Heathrow slots, significant aircraft fleet and strong position in the London–Dublin market. [REDACTED]
6. Shareholder B [REDACTED].
7. Shareholder B said [REDACTED].
8. Shareholder C said that Aer Lingus might be an attractive investment due to its Heathrow slots. Ryanair's and the Irish Government's shareholdings in Aer Lingus might, however, be an inhibiting factor to any potential acquirer. The liquidity in Aer Lingus stock was also quite limited due to Ryanair and the Irish Government's shareholdings. This might put off large investors who preferred stock with high liquidity.
9. Shareholder A said that Aer Lingus's performance and profitability had continued to evolve over the past couple of years due to changes made by relatively new management. It believed that further improvements could be made through operational changes and cost-saving measures to achieve higher values for shareholders.
10. Shareholder B considered that the current management of Aer Lingus was independent of any shareholder influence and acted in the best interests of the airline as a commercial enterprise.
11. Aer Lingus might need to issue equity to fund additional fleet for example, although Shareholder C was not aware of any requirements at present. Ryanair could be in a position to block the raising of capital to fund any such requirements by issuing new shares.

Voting by financial institutions

12. Shareholder A voted according to recommendations made by the Institutional Shareholder Service (ISS). ISS made specialist recommendations based on corporate governance best practice. In the case of Aer Lingus, it had never voted

against ISS recommendations; however, it would be prepared to vote against ISS recommendations should it disagree with them.

13. Shareholder A said that the majority of ISS's recommendations were in favour of management resolutions. On two occasions it had followed ISS recommendations to go against proposed resolutions by Aer Lingus management. These recommendations were to vote against the reappointment of directors.
14. In Shareholder A's its opinion, the views of other large shareholders, including Ryanair and the Irish Government, would not affect its voting position.
15. Shareholder B said that it generally used its votes. It generally voted in support of management but would consider each vote on a case-by-case basis and might vote against management if, for example, a supportive vote would harm shareholders.
16. Alternatively, like other shareholders, Shareholder B might act by selling shares rather than trying to influence management.
17. Shareholder B did not consider the voting patterns of other shareholders when deciding how to vote but did not exclude the idea of communicating with other shareholders in advance of a vote.
18. Shareholder C said [✂].
19. In relation to the discretionary shareholding, Shareholder C mostly voted its Aer Lingus share in line with management recommendations. Its voting strategy was to act in the best interests of its clients and consider the specific voting issues in question together with any board recommendations made.
20. Shareholder C thought that Ryanair's status could influence voting at shareholder meetings. It saw a risk of conflict between Ryanair and Aer Lingus due to the different management strategies of the airlines.

Ryanair

21. Shareholder A said that Ryanair could block a special resolution due to the level of shareholding it held, although Shareholder A was not aware of any situations recently when this had occurred.
22. Shareholder A was aware that Ryanair could in theory block a special resolution to raise capital by issuing new shares. However, it considered this to be an unlikely situation due to Aer Lingus's significant cash held in its balance sheet and operational profitability.
23. Shareholder B considered it unlikely that Ryanair would vote in favour of a special resolution to override pre-emption rights when raising share capital due to the likelihood of dilution of its shares. Shareholder B did not consider, however, that Aer Lingus was in a financial situation which would require it to raise capital through a rights issue due to its low levels of debt.
24. Ryanair's level of shareholding would allow it to block a special resolution. Shareholder C could not comment on what this might allow Ryanair to do. It suggested, however, that Ryanair might be more likely to go for a full bid on the back of its minority shareholding, which could be good for investors.

25. In relation to blocking or passing ordinary resolutions, Shareholder A said that Ryanair would have to get considerable support from other shareholders and was not aware of any situations when this occurred. It was aware of Ryanair's ability to raise issues about Aer Lingus in the public sphere but did not feel that this would lead to Ryanair gaining support from other shareholders to change ordinary resolutions.
26. Shareholder B did not consider that Ryanair was currently able to pass an ordinary resolution without the support of other shareholders to form a majority. This limitation was evidenced by Ryanair's inability to appoint a company director. This might change if the Irish Government were to sell its shares in Aer Lingus; however, this was dependent on to whom the shares were sold and their specific interests.
27. Overall, Shareholder B did not consider that Ryanair's minority stake in Aer Lingus had given it any power of control over Aer Lingus.
28. Shareholder C said that Ryanair's voting powers had been limited in the past due to the block vote effects of Aer Lingus's Employee Share Ownership Trust (ESOT), which would tend to vote against Ryanair; the dispersal of shares from the Aer Lingus ESOT had diluted this effect.

Irish government

29. Shareholder A said that it was a matter of public record that the Irish Government wished to sell state-owned assets as part of the Troika Agreement, which could include its Aer Lingus shares. The Irish Government had sold a small stake to Etihad.
30. Shareholder A said that it could not comment on the Irish Government's policy in relation to selling its stake in Aer Lingus, although it noted that the value of the Irish Government's stake in Aer Lingus had been increasing and the Irish economy was recovering.
31. In the event of it deciding to sell its stake in Aer Lingus, Shareholder A could not say what mechanism the Irish Government would use but said that influencing factors on the Irish Government when making such a decision could be to obtain the best price for Irish taxpayers and to ensure that competition in the Irish air travel market would be maintained.