annual report 2003

aerlingus.com

Low Fares. Way Better.

Contents

Boston

New York

Chicago

Washington (Baltimore)

Los Angeles

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Edinburgh
Glasgow

Dublin
Manchester
Copenhagen
Shannon
Cork
Birmingham
London
Amsterdam
Berlin
Warsaw
Bristol
Jersey
Brussels
Dusseldorf
Paris
Frankfurt
Prague
Vienna
Munich
Zurich
Geneva
Bilbao
Lyon
Milan
Toulouse
Nice
Madrid
Venice
Bologna
Lisbon
Barcelona
Rome
Dubrovnik
Valencia
Palma
Faro
Alicante
Malaga
Tenerife

Low Fares. Way Better.

Financial Highlights
for the year ended 31 December 2003

		2003	2002	2001
		€ million	€ million	€ million
Profit and loss				
Turnover - Continuing operations		**888.3**	958.6	1,097.2
Operating costs		**805.3**	894.8	1,149.3
Operating profit (loss)	(1)	**83.0**	63.8	(52.1)
Operating margin (%)		**9.3%**	6.7%	(4.7%)
EBITDAR	(2)	**186.9**	176.8	104.3
Net exceptional cost		**-**	(25.7)	(104.1)
Profit (loss) for the year		**69.2**	35.3	(139.9)
Earnings (loss) per share (€ cent)		**27.1c**	13.8c	(54.7c)
Balance sheet				
Shareholders' funds		**321.9**	255.6	223.9
Free cash		**384.8**	367.3	169.5
Net cash and liquid resources	(3)	**226.2**	154.9	66.0
Key statistics - Continuing operations				
Passengers flown (scheduled)		**6,594,650**	6,210,891	6,307,371
Passenger load factor (flown %)		**81%**	78%	71%
Premium class bookings (%)		**7%**	10%	13%
Average flown fare - Europe (€)		**82.52**	92.32	103.10
Average sector length - Europe (kms)		**727**	639	597
Average flown fare - Transatlantic (€)		**250.97**	316.04	327.77
Average sector length - Transatlantic (kms)		**5,517**	5,548	5,547
Average number of aircraft operated		**32.9**	32.8	37.2
Average number of employees		**4,281**	4,650	6,108
Internet sales at year-end		**50%**	28%	8%

(1) Operating profit on continuing operations before employee profit share.
(2) Earnings on continuing operations before employee profit share, interest, tax, depreciation, amortisation and aircraft rentals.
(3) Free cash plus restricted cash deposits less finance lease obligations and debt.

Chairman's Statement

I am pleased to report that Aer Lingus has continued to perform well in 2003.

The business returned an operating profit (before employee profit share) of €83.0 million. This represents an increase of 30% on the operating profit of €63.8 million in 2002.

The profit for the year amounted to €69.2 million.

The balance sheet has also been further strengthened during the year. At 31 December 2003 the Group's free cash position amounted to €384.8 million and net cash amounted to €226.2 million.

During 2003 further significant progress was made in transforming the business into a Low Fares Airline. A number of new routes were launched successfully and the business delivered lower fares on a consistent basis. This was supported by the identification and implementation of further significant cost reduction initiatives across all cost captions.

In September 2003, the Group concluded arrangements with manufacturers and lessors that will result in the transition to a single European fleet type by the end of 2005. This strategic change to the fleet will facilitate further reductions in unit seat costs.

I would like to thank Willie Walsh and his management team for their initiative and dedication in continuing to deliver a strong performance.

On behalf of the Board, I would also like to express my thanks to staff across the Company for their hard work and effort during 2003. The staff understand what has been achieved to date but also the significant changes required to continue to build a sustainable business.

I would like to thank the members of the Board for their work and commitment during 2003. There were a number of changes to the Board in 2003. John Sharman was appointed to the Board in March 2003. The terms of office of John Keane and Chris Wall ended in December 2003. I would like to congratulate Chris on his reappointment to the Board and thank John for his very significant contribution and commitment to the business over the past five years. In January 2004, Dan Loughrey resigned from the Board. I would like to thank Dan for his service to the Group over twelve years and wish him well in the future. Brian Dunne was appointed to the Board in February 2004.

I would like to thank the Minister for Transport, Séamus Brennan T.D., and the officials of the Departments of Transport and Finance for their assistance throughout 2003.

I am confident that Aer Lingus will meet the challenges ahead and compete successfully in the future. Working together we will continue to change the way we do business and further reduce costs in order to offer our customers low fares air travel.

Tom Mulcahy
Chairman

Directors

Willie Clarke
Willie Clarke was appointed to the Board as an elected Director in May 1998 and was re-elected in 2002. He is a Senior Cargo Agent in Dublin Cargo Terminal and is currently Vice - President of the Aer Lingus SIPTU Branch.

Frank Cox
Frank Cox was appointed to the Board as an elected Director in July 2002. He joined Aer Lingus in 1970 and is currently a Duty Passenger Officer at Shannon Airport.

Brian Dunne
Brian Dunne joined Aer Lingus as Chief Financial Officer in October 2001 and was appointed to the Board in February 2004. He is a Chartered Accountant and, prior to joining Aer Lingus, he was a partner in Arthur Andersen.

Ivor Fitzpatrick
Ivor Fitzpatrick was appointed to the Board as a Director in June 2002. He is a Solicitor and the founding partner of Ivor Fitzpatrick & Co. one of Ireland's leading law firms.

Tom Mulcahy
Tom Mulcahy was appointed Chairman in August 2001. He is a Chartered Accountant and had an extensive career in the financial services industry. He was Group Chief Executive of Allied Irish Banks plc for seven years. Following his retirement from that position he has taken up a number of business interests.

Sean Murphy
Sean Murphy was appointed to the Board as an elected Director in July 2002. He is a Sales Executive in the Aer Lingus Cargo Department.

Nora O'Reilly
Nora O'Reilly was appointed to the Board as an elected Director in July 2002. She is a Senior Cabin Crew member in Aer Lingus and was Chairperson of the Cabin Crew Committee from May 1998 to March 2002. She is also a member of the State and Enterprise Division of IMPACT and the Central Executive Council.

John Sharman
John Sharman was appointed to the Board in March 2003. He is a founding shareholder of Spectrum Capital, Ltd., a UK company specialising in financing for the aviation industry. Mr Sharman is a fellow of the Royal Aeronautical Society and is a member of the UK Department of Trade and Industry Aerospace Committee.

Chris Wall
Chris Wall was appointed to the Board in December 1998. He is also a member of the Board of Great Southern Hotels and a Director of several other companies. He is a business consultant.

Willie Walsh
Willie Walsh became Chief Executive in October 2001 and was appointed to the Board in November 2001. He joined Aer Lingus in 1979 as a cadet pilot and has held a number of senior positions including Chief Operations Officer, and Chief Executive of Futura. He is also a member of the Board of Fyffes plc.

Management

Willie Walsh
Chief Executive

Seamus Kearney
Chief Operations Officer

Brian Dunne
Chief Financial Officer

Niall Walsh
Procurement Director

Liz White
Human Resources Director

Chief Executive's Statement

2003 was a year of further progress for Aer Lingus.

The trading environment in the first half of the year was very difficult. An unstable international political scene combined with weakness in key economies and SARS presented significant challenges.

Aer Lingus responded well to these events by stimulating air travel through low fares and by driving further cost out of the business. The net result of these actions is that we delivered an operating profit (before employee profit share) of €83.0 million in 2003.

Since 2001 we have taken €344 million of cost out of the business, representing 30% of the 2001 cost base. Cost reductions have been achieved across all cost captions. One key area of focus to date has been to drive down distribution costs through the promotion of aerlingus.com as our primary distribution channel and through the reduction of travel agent commissions in all markets.

We made significant progress during 2003 in defining and communicating our new business model. We have positioned Aer Lingus as a Low Fares Airline that consistently provides low fares to our customers but with a service that is way better than that provided by our competitors.

During 2003 we also completed the evaluation of our European fleet and concluded arrangements with manufacturers and lessors that will result in the transition to a single European fleet type by end 2005. This transaction will be funded without recourse to additional shareholder investment in the business. Seventeen new A320 aircraft will be acquired between April 2004 and December 2005, of which ten will be leased. This will facilitate us in driving significant additional cost out of the business.

On our Transatlantic operation we continue to be constrained by existing Ireland/United States bilateral arrangements. These restrict our operation to five destinations in the United States (Boston, Chicago, Los Angeles, New York and Washington (Baltimore)) and require equal services to/from Shannon and Dublin. We are confident that with the opening up of this market that we could grow our operation significantly to provide additional low fare capacity for our customers in the United States and Europe on new and existing routes.

There are opportunities to grow our long-haul operations to the East and South out of Ireland. In this regard we have now initiated a review of our long-haul fleet. This review will seek to identify a medium to long-term fleet strategy having regard to our existing fleet of seven A330 aircraft and potential market opportunities. At this stage of the review, it is clear that the scale of any investment required will be very significant relative to our resources and that if we are to avail of these opportunities we must increase our profitability and the cash generated from operations significantly.

The trading environment at the start of 2004 is increasingly difficult. Competition within the European market is intense and we anticipate further low cost competition on key routes during the course of 2004. Ireland, our key market, is the leading low fares air market in Europe.

There is no time for complacency. We need to take significant additional cost out of the business as a matter of urgency to enable us to further reduce our fares in order to compete in the increasingly competitive markets in which we operate and to deliver sufficient cash to enable us to continue to grow from within our own resources.

Aer Lingus achieved an operating margin of 9.3% in 2003. Although good relative to other players in the industry we are significantly underperforming our main competitor in Europe. We have set ourselves a medium term target of a 15% operating margin. The achievement of this target is more essential today given the experience and uncertainties of the past year. In 2004 we will be re-examining all aspects of our business to challenge what we do and how we do it. This examination will be informed by the requirements of leisure and business passengers in our key markets.

Our focus in 2004 will be to continue to drive the organisation to deliver low fares with a consistent service. We have set demanding performance targets for the year. Working together in a determined manner we can continue to build a sustainable and profitable business.

Willie Walsh
Chief Executive


AER LINGUS
EI 650
DEP DUBLIN
FRI 2JUL04 6.50AM
ARR FRANKFURT
FRI 2JUL04 10.00AM
TICKET NUMBER 0532400977042
punctuality
6.50AM
7.40AM
8.30AM
9.20AM
10.00AM
efficient
Thank you for using FastPass.
Please identify yourself
to receive your boarding pass.

Operating and Financial Review

Overview

Aer Lingus recorded an operating profit (before employee profit share) of €83.0 million compared with €63.8 million in 2002.

The profit for the year amounted to €69.2 million (2002: €35.3 million).

As a result of the above at year-end, shareholders' funds had increased to €321.9 million (2002: €255.6 million) and net cash had increased to €226.2 million (2002: €154.9 million).

Operating Review

The economic and industrial environment in which Aer Lingus operates was very difficult in the first half of 2003. Uncertainty was created by the Iraq war and the SARS outbreak in the Far East. The weak dollar had a detrimental effect on traffic out of the United States and adversely impacted Transatlantic yields. Economic conditions remained generally weak in Continental Europe. This reinforced the continuing competitive pressure on European airlines to reduce yields and fare levels and to reduce costs accordingly.

Aer Lingus responded by aggressive promotion in all markets offering lower fares and generating an increase in passenger numbers over 2002. This was enabled by sustained and aggressive cost reduction during 2003.

Aer Lingus has successfully positioned itself as a Low Fares Airline in all its key markets and supported this during 2003 with the launch of the "Low Fares. Way Better." marketing campaign, which highlights the key service differentiators from our competition.

Turnover
Turnover on continuing operations fell 7.3% to €888.3 million in 2003. This reflects the drive to reduce fares to our customers.

Scheduled Passengers
Passengers flown (scheduled) increased by 6.2% to 6.6 million in 2003. Aircraft utilisation improved with the passenger load factor increasing to 81% (2002: 78%). The ongoing reduction in demand for the business product (premium class bookings fell from 13% in 2001 to 7% in 2003) and our continuous strategy of reducing prices resulted in further significant decreases in average yields. As a result of these elements, total passenger revenue was 4.6% lower in 2003 than in 2002.

Total traffic on European routes increased by 3.9% compared to 2002. Included in this was a reduction in 2003 of 4.8% in passenger numbers on the London routes. The BAe146 aircraft were withdrawn from service in late 2003, as part of the European fleet rationalisation programme, making it no longer feasible to serve London City airport. Traffic levels on the UK Provincial routes were 8.4% behind 2002 levels, whereas capacity was reduced by 16.9%. Traffic on the Continental European network was 27.6% ahead of 2002, following the introduction of six new routes in 2003 – Dublin to Palma, Tenerife, Toulouse, Bologna, Lisbon and Jersey. A total of fifteen new European routes have been introduced since 2001, with a further thirteen announced for 2004. The average flown fare in Europe has been reduced by 20% from €103.10 in 2001 to €82.52 in 2003, while over the same period the average sector length has increased by 21.8% from 597 kms to 727 kms.

Transatlantic traffic increased by 19.4% to 1.1 million passengers in 2003. This was a strong performance in the context of the war in Iraq. The Washington (Baltimore) route, which had been suspended following the events of September 11, 2001, was restored in 2003. The average Transatlantic flown fare has been reduced by 23.4% from €327.77 in 2001 to €250.97 in 2003. The weakening dollar was a significant factor in this reduction. Aer Lingus continues to be the market leader on Transatlantic routes into and out of Ireland and this market accounted for approximately 38% of 2003 scheduled passenger revenue.

Cargo
Total cargo carried on Aer Lingus services, excluding mail, decreased by 1% compared to 2002 to 28,400 tonnes. Total cargo revenue fell by 10.7%.

Tonnage carried on the Transatlantic network increased by 700 tonnes (3.6%) and tonnage on the European network decreased by 1,000 tonnes (11.1%).

Reflecting the weaker dollar, Transatlantic scheduled revenue fell by 8.5%. European scheduled revenues fell by 12.3%, owing to reduced volume. The Transatlantic network continues to generate the largest proportion of cargo revenue, representing 82% of scheduled cargo revenue for 2003.

Mail handling revenue and terminal handling revenue decreased by 17.5% and 22.7% respectively.

Aer Lingus cargo operations are certified to ISO 9002 standard and have an established record for customer care and on-time delivery.

Costs
In order to be competitive with other airlines and to meet customer expectations on fare levels, Aer Lingus must sustain a continuous momentum to reduce costs.

Costs on continuing operations were reduced by €89.5 million (10%) to €805.3 million in 2003. This means that costs on continuing operations have been reduced by €344 million or 30% since 2001. Staff costs on continuing operations increased by €12.4 million (5.2%) in 2003. This reflects an increase of 14.3% in average staff cost to €58,400, following the payment of increases frozen in 2001 and 2002, offset by a further reduction of 369 (7.9%) in the average number of employees to 4,281.


city airports,
seat allocation.
14B
14A
NAME: JOHN SMITH
DUB EI 609
SEAT NO: 14A
NAME: JANE SMITH
DUB EI 609
SEAT NO: 14B

A reduction of 40.2% in distribution costs in 2003 was a significant contributor to the cost performance for the year. The key element in this is the drive to maximise direct bookings through the Aer Lingus internet site aerlingus.com, which at the year-end accounted for 50% of all sales. Sales through the internet only accounted for 8% of sales at the end of 2001.

Operating Profit
The operating profit (before employee profit share) on continuing operations increased by 30% to €83.0 million in 2003. The operating margin was 9.3% (2002: 6.7%).

The EBITDAR margin on continuing operations increased from 18.4% in 2002 to 21.0% in 2003.

Fleet
Aer Lingus operated 32.9 aircraft on average in 2003 (2002: 32.8). The summer peak fleet consisted of 27 aircraft on European routes and 7 on Transatlantic routes.

A fundamental strategic review of the European fleet was concluded in 2003. The European fleet consisted of five aircraft types from three different manufacturers – six A321s, four A320s, three B737-400s, eight B737-500s and six BAe146s. The review confirmed the diseconomies and complexities associated with multiple aircraft types and recommended the acceleration of the move to a single aircraft type or family. Negotiations with aircraft manufacturers and others were concluded in September 2003. Agreement was reached with Airbus, International Lease Finance Corporation ("ILFC") and CFM to supply the new fleet. This will facilitate the transition to a single fleet type for European operations by the end of 2005.

Under the agreements, Aer Lingus will acquire seventeen A320 aircraft, of which seven will be purchased outright from Airbus and ten will be acquired on operating lease from ILFC. Together with the six A321s and four A320s already in the fleet, the short-haul fleet will consist of twenty-seven Airbus A320 family aircraft. Options have also been negotiated on a further ten A320 aircraft. CFM will provide the engines for the new fleet.

The six BAe146 aircraft were withdrawn from the operating fleet in late 2003. Subsequent to the year-end three of the aircraft were returned to the lessors. Discussions are on-going with the owners of the other three aircraft in relation to their early return or their storage and hand-back in 2006 and 2007. The costs of storage and hand-back of the six BAe146 aircraft were provided for in the 2002 accounts.

The B737 aircraft will leave the fleet as the A320s are delivered in 2004 and 2005. Seven of the B737s were sold to ILFC in January 2004 and are being leased back for periods of up two years to facilitate the transition. The remaining four B737s will be sold in 2004 as they are replaced by A320s.

At the end of 2005 the average age of the European fleet will be less than three years.

A review of the long-haul fleet has commenced. The fleet consists of seven A330 aircraft at present. The review will seek to identify a medium to long-term strategy having regard to the existing fleet and potential market opportunities.

At the year end, fleet expenditure commitments consisted of contracts for seven Airbus A320s for delivery in 2004 and 2005.

Financial Review

Profit before Taxation
The operating profit (before employee profit share) on continuing operations was €83.0 million in 2003 (2002: €63.8 million).

The amount due in 2003 under the employee profit sharing scheme was €8.8 million, being 10% of the profit before exceptional items and taxation for the year of €88.2 million.

After net interest income of €5.2 million in 2003 (2002: €2.0 million) the profit on ordinary activities before taxation amounted to €79.4 million (2002: €37.0 million).

Taxation
A tax charge of €10.2 million arose in the year (2002: €1.3 million). This represents a charge of 12.8% of profits, the majority of which relates to deferred tax.

Profit Per Share
The profit for the year was €69.2 million (2002: €35.3 million). Earnings per share increased by 96.4% to 27.1c (2002: 13.8c).

Balance Sheet
The year-end balance sheet shows Aer Lingus in a sound financial situation with a strong cash position. Free cash at 31 December 2003 of €384.8 million represents over six months cash operating costs.

Shareholders' funds increased by €66.3 million to €321.9 million at year-end. They will increase by a further €38.1 million when the share issue to the Employee Share Ownership Trust, which was provided for in the 2002 accounts, takes place. This is expected to occur in 2004.

The net cash position increased by €71.3 million to €226.2 million at year-end.

Low Fares. Way Better.

DUBLIN
Alicante
Amsterdam
Barcelona
Berlin
Bilbao
Birmingham
Bologna
Bristol
Brussels
Copenhagen
Dubrovnik
Dusseldorf
Edinburgh
Faro
Frankfurt
Geneva
Glasgow
Jersey
Lisbon
London Heathrow
Lyon
Madrid
Malaga
Manchester
Milan-Linate
Milan-Malpensa
Munich
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Palma
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Boston
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CORK
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Barcelona
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Malaga
Milan
Paris

SHANNON
London Heathrow

Boston
Chicago
New York
Washington (Baltimore)

NEW ROUTES
DUBLIN
Berlin
Bilbao
Bristol
Copenhagen
Dubrovnik
Lyon
Valencia
Venice
Warsaw
Zurich

CORK
Alicante
Barcelona
Milan

Review of Cash Flow
Cash generated from operating activities increased by €26.3 million to €111.7 million in 2003.

There was a net cash inflow from investments and servicing of finance in 2003 of €7.5 million compared to an outflow of €0.9 million in 2002.

There was a net cash outflow for capital expenditure and financial investment of €43.2 million. This relates primarily to progress payments on the seven new A320 aircraft being purchased from Airbus in connection with the European fleet transition.

A net cash inflow of €3.0 million arose on the sale of interests in subsidiary companies.

These factors resulted in a cash inflow of €79.1 million for the year, before the use of liquid resources and financing.

Debt, net of movements in restricted deposits, was reduced by €43.0 million and liquid resources and cash balances were increased by €36.1 million in 2003.

Treasury and Risk Management
In the normal course of business, Aer Lingus is exposed to fluctuations in exchange rates, interest rates and fuel costs.

The treasury risk arising from these fluctuations is approved and managed in accordance with a set of clearly defined policy statements and limits, which have been approved by the Board.

The objective of the treasury management policy is the execution of the key treasury functions of funding and risk management in a secure and cost effective manner in accordance with the objectives of the business. The emphasis is on risk management and, where possible, the protection of the business from the financial impact of volatility in financial markets and fuel markets. The treasury management policy also ensures that adequate reporting procedures are in place.

Financial market instruments are used solely to hedge an underlying exposure and Aer Lingus does not, under any circumstances, enter into a financial instrument transaction for speculative purposes.

Exchange Rates
Aer Lingus is subject to exchange rate exposure resulting from its trading activities, its capital investments and its funding operations. The main exposures arise in relation to Sterling and the US Dollar.

The exchange rate exposure is managed on a selective hedging basis, with a focus on the management of cash flow exposures. The exchange rate management policy provides for a minimum cover of 50% of trading exposures (i.e. net unmatched foreign currency costs and revenues) for the current financial year and a minimum cover of 25% of the trading exposure of the following financial year. At 31 December 2003, the US Dollar exposure for 2004 and 2005 was hedged at 96% and 75% respectively and the Sterling exposure was hedged at 75% and 30% respectively. The level of cover is reviewed on an ongoing basis in light of market developments and operational decisions.

Interest Rates
The interest rate risk in relation to Aer Lingus' debt portfolio is managed on a selective hedging basis using approved financial market instruments. The interest management policy provides that, at a minimum, 50% of long term net debt will be at fixed interest rates.

Fuel Costs
Aer Lingus manages the fuel price exposure associated with its trading activities on a selective hedging basis. Fuel price exposure is managed through the use of commodity market instruments. This is supplemented by price management, which is achieved through direct fuel purchasing.

The company's fuel risk management policy is that a minimum of 40% cover will be maintained for fuel exposures for the current financial year. At 31 December 2003 Aer Lingus had fuel hedges covering approximately 54% of its estimated 2004 requirement.

Employee Participation
As detailed in Note 20 to the accounts, an employee share participation scheme was established in March 1996. As part of the 2001 Survival Plan, agreement involving the Irish Government, the employee representatives and Aer Lingus was reached on the establishment of an employee share ownership plan ("ESOP") and a new profit sharing scheme.

Under the terms of these arrangements the shares issued for the benefit of employees will increase from 4.76% to 14.9% of the issued share capital of Aer Lingus. This will be achieved by issuing 30,472,725 shares under the ESOP. The shares are expected to be issued in 2004.

Directors' Report
year ended 31 December 2003

Introduction
The Directors present their report to shareholders, together with the consolidated accounts of Aer Lingus Group plc and the auditors' report thereon, for the year ended 31 December 2003.

Principal Activities and Future Developments
The principal activities during the year were the provision of low fares air travel services. The Directors intend to continue to develop this activity by adding new routes and further capacity on existing routes.

Results for the Year and State of Affairs as at 31 December 2003
The consolidated profit and loss account for the year ended 31 December 2003 and the consolidated balance sheet at that date are set out on pages 13 and 14. The profit for the year after tax amounted to €69.2 million (2002 – profit of €35.3m, after net exceptional losses of €25.7m).

The movement on the consolidated profit and loss account for the year is as follows:

	€ million
Balance, 31 December 2002	(69.2)
Profit for the year	69.2
Other movements, net	(2.9)
Balance, 31 December 2003	(2.9)

As a result of the profit for the year of €69.2 million and currency translation and other adjustments of €2.9 million, shareholders' funds increased by €66.3 million since those reported at 31 December 2002. No further transfers to or from reserves are proposed by the Directors.

Dividends
The Directors do not propose the payment of any dividends in respect of the year ended 31 December 2003.

Employee Participation
In accordance with the formal agreement as provided for in the Worker Participation (State Enterprises) Acts ("the Acts") there were regular meetings during the year between the Central Representative Council (comprising staff representatives) and members of senior management to discuss business issues. Local participation councils, which have been set up in a number of departments, were also active during the year. As indicated below four employees served on the Board during the year under the provisions of the Acts.

Employee Health and Safety
The Group's operating company, Aer Lingus Limited, has produced and implemented a corporate safety statement in accordance with the Safety, Health and Welfare at Work Act, 1989.

Directors
The Directors who served during the year are listed below:

Tom Mulcahy	Sean Murphy*
Willie Clarke*	Nora O'Reilly*
Frank Cox*	John Sharman
Ivor Fitzpatrick	Chris Wall
John Keane	Willie Walsh
Dan Loughrey	

*Worker Director, elected under provisions of Worker Participation (State Enterprises) Acts.

John Sharman was appointed to the Board on 21 March 2003. The term of office of John Keane ended on 2 December 2003. Dan Loughrey resigned from the Board on 31 January 2004. Brian Dunne was appointed to the Board on 25 February 2004.

Directors' and Secretary's Shareholdings and Other Interests
The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2003 in the share capital of the Company or any Group undertaking at 1 January 2003 and 31 December 2003 were:

	Aer Lingus Group plc Shares of €1.25 each	
	31 December 2003*	**1 January 2003**
Willie Clarke	3,539	3,052
Frank Cox	9,539	9,052
Dan Loughrey	3,697	3,210
Sean Murphy	2,322	1,835
Nora O'Reilly	3,539	3,052
Willie Walsh	2,897	2,410
Greg O'Sullivan (Secretary)	1,675	1,188

*includes notional allocation of shares under the Aer Lingus Employee Share Ownership Plan (see Note 20)

All the above shares were held in trust. The Directors and Secretary and their families had no other beneficial interests in the shares of the Company or any other Group undertaking at 31 December 2003.

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.

Directors' Responsibility Statement
Irish company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish Statute comprising the Companies Acts, 1963 to 2001 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Internal Control
The Board has overall responsibility for the Group's systems of internal control. Those systems which are maintained by the Group can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established an organisation structure with clear operating and reporting procedures, authorisation limits, segregation of duties and delegated authorities. A comprehensive system of financial reporting is maintained with monthly monitoring of performance against budgets. A framework to formally identify risks and assess the effectiveness of internal controls has been established and detailed policies for treasury risk management are maintained.

Internal auditors monitor the Group's control systems by examining financial reports, by testing the accuracy of the reporting of transactions, and by otherwise obtaining assurances that the systems are operating in accordance with the Group's objectives.

The Audit Committee of the Board of Directors is composed of non-executive Directors. The Committee meets periodically with the internal auditors and the external auditors to discuss the Group's internal financial controls, the output from the risk management framework, the internal audit function, the choice of accounting policies, the external audit programme, the statutory audit report, financial reporting and other related matters. The internal auditors and the external auditors have full and unrestricted access to the Audit Committee. During the year the Board, through the Audit Committee, reviewed the effectiveness of the Group's system of internal financial control.

Payment Practices
The Directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2002. Procedures have been implemented to identify the dates upon which invoices fall due for payment and to ensure that payments are made by such dates. Such procedures provide reasonable assurance against material non-compliance with the Regulations. The payment policy throughout 2003 was to comply with the requirements of the Regulations.

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

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

ON BEHALF OF THE DIRECTORS

T Mulcahy
Chairman

I Fitzpatrick
Director

26 February 2004

Independent Auditors' Report
to the Members of Aer Lingus Group plc

We have audited the accounts on pages 13 to 30 and the accounting policies set out in the Statement of Accounting Policies on pages 18 and 19.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the annual report and the accounts in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on pages 10 and 11 in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001, and the European Communities (Companies: Group Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account.
We also report to you our opinion as to:

- whether the Company has kept proper books of account;
- whether the Directors' Report is consistent with the accounts; and
- whether at the balance sheet date there existed a financial situation which may require the Company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the Company, as stated in the Company balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Statement and the Operating and Financial Review.

Basis of Audit Opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion
In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001, and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 10 and 11 is consistent with the accounts.

The net assets of the Company, as stated in the Company balance sheet on page 15, 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 2003 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

26 February 2004

a) The maintenance and integrity of the Aer Lingus Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

year ended 31 December 2003

		2003	2002		
			Continuing Operations	Discontinued Operations	Total
	Notes	**€000**	€000	€000	€000
Turnover	1	**888,298**	958,650	212,286	1,170,936
Cost of Sales	1	**(651,598)**	(692,195)	(201,775)	(893,970)
Gross Profit		**236,700**	266,455	10,511	276,966
Other operating expenses					
- operating	1	**(153,735)**	(202,609)	(1,292)	(203,901)
- employee profit share	20	**(8,822)**	(7,511)	-	(7,511)
- employee profit share (exceptional)	2	**-**	1,577	-	1,577
		(162,557)	(208,543)	(1,292)	(209,835)
Operating Profit	1	**74,143**	57,912	9,219	67,131
Exceptional Items					
Cost of fundamental restructuring	2	**-**	(71,239)	-	(71,239)
Profit on disposal of fixed assets and investments	2	**-**	26,970	-	26,970
Profit on exit from non-core activities	2	**-**	-	12,089	12,089
Profit on Ordinary Activities before Interest		**74,143**	13,643	21,308	34,951
Interest receivable and similar income		**32,592**	30,619	541	31,160
Interest payable and similar charges	3	**(27,332)**	(29,116)	-	(29,116)
Profit on Ordinary Activities before Taxation	4	**79,403**	15,146	21,849	36,995
Taxation	7	**(10,186)**	1,687	(2,949)	(1,262)
Profit on Ordinary Activities after Taxation		**69,217**	16,833	18,900	35,733
Minority Interests	18	**-**	-	(418)	(418)
Profit for the Year		**69,217**	16,833	18,482	35,315
Earnings per Share (€ cent)	8	**27.1c**			13.8c
Earnings per Share – continuing operations before exceptional items (€ cent)	8	**27.1c**			21.3c

All of the results for 2003 are derived from continuing operations.

T Mulcahy Chairman

I Fitzpatrick Director

Approved by the Board of Directors on 26 February 2004

Consolidated Balance Sheet
as at 31 December 2003

	Notes	**2003 €000**	2002 €000
Fixed Assets			
Tangible assets	9	**591,296**	614,246
Current Assets			
Stocks	11	**1,295**	1,592
Debtors	12	**67,354**	81,901
Cash, short-term deposits and liquid resources			
Free cash	13	**384,807**	367,286
Restricted cash	13	**271,437**	313,040
		724,893	763,819
Creditors: Amounts falling due within one year	14	**(408,908)**	(454,083)
Net Current Assets		**315,985**	309,736
Total Assets less Current Liabilities		**907,281**	923,982
Creditors: Amounts falling due after more than one year	15	**(383,527)**	(456,739)
Provisions for Liabilities and Charges	16	**(201,886)**	(211,640)
Net Assets		**321,868**	255,603
Capital and Reserves			
Called-up share capital	17	**319,738**	319,738
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**(2,918)**	(69,183)
Shareholders' Funds - equity interests		**321,868**	255,603

T Mulcahy
Chairman

I Fitzpatrick
Director

Approved by the Board of Directors on 26 February 2004

Company Balance Sheet

as at 31 December 2003

	Notes	**2003** **€000**	2002 €000
Fixed Assets			
Financial assets	10	**328,367**	328,367
Current Assets			
Debtors: Amounts due from subsidiary undertakings		**34,656**	34,656
Net Assets		**363,023**	363,023
Capital and Reserves			
Called-up share capital	17	**319,738**	319,738
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**38,237**	38,237
Shareholders' Funds - equity interests		**363,023**	363,023

T Mulcahy
Chairman

I Fitzpatrick
Director

Approved by the Board of Directors on 26 February 2004

Consolidated Cash Flow Statement

year ended 31 December 2003

	Notes	**2003 €000**	2002 €000
Net cash inflow from Operating Activities	19A	**111,663**	85,407
Returns on Investments and Servicing of Finance	19B	**7,482**	(859)
Taxation		**210**	3,433
Capital Expenditure and Financial Investment	19B	**(43,240)**	38,794
Acquisitions and Disposals	19B	**3,020**	(34,928)
Cash inflow before use of liquid resources and financing		**79,135**	91,847
Management of Liquid Resources	19C	**(32,033)**	(238,117)
Financing - (decrease)/increase in debt	19B	**(43,020)**	116,192
Increase/(decrease) in cash in year		**4,082**	(30,078)

Reconciliation of net cash flow to movement in net funds (Note 19C)		
Increase/(decrease) in cash in year	**4,082**	(30,078)
Cash flow from change in debt and lease financing	**43,020**	(116,192)
Cash outflow from change in liquid resources	**32,033**	238,117
Change in net funds resulting from cash flows	**79,135**	91,847
Other movements	**(7,852)**	(2,930)
Movement in net funds in year	**71,283**	88,917
Net funds at beginning of year	**154,950**	66,033
Net funds at end of year	**226,233**	154,950

Other Consolidated Statements

year ended 31 December 2003

Statement of Total Recognised Gains and Losses	2003 €000	2002 €000
Profit for the year	**69,217**	35,315
Other movements, principally currency translation adjustments		
Profit and loss account	**(2,952)**	(3,633)
Total recognised gains for the year	**66,265**	31,682

Reconciliation of Movements in Shareholders' Funds		
Beginning of year	**255,603**	223,921
Total recognised gains for the year	**66,265**	31,682
End of year	**321,868**	255,603
Movements on Profit and Loss Account		
Beginning of year	**(69,183)**	(100,865)
Profit retained for year	**69,217**	35,315
Currency translation and other movements	**(2,952)**	(3,633)
End of year	**(2,918)**	(69,183)

Statement of Accounting Policies

The Group's principal accounting policies are set out below. All of these policies have been applied consistently throughout the year and the preceding year.

A Principles of Preparation

The consolidated accounts have been drawn up under the historical cost convention in accordance with accounting standards generally accepted in Ireland and Irish statute, comprising the Companies Acts, 1963 to 2001 and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing accounts giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

C Income Recognition

Turnover comprises revenues (excluding VAT and similar taxes and trade discounts) from air travel services arising in the normal course of business.

Revenues are recognised when transportation is provided. The value of sales made, for which transportation has not been provided at year-end, is included in creditors falling due within one year under the caption "Ticket sales in advance". Expired tickets are recognised as revenue on a systematic basis.

D Pension and Other Post-Retirement Obligations

The Group provides pensions to substantially all employees through contributions to a variety of separately administered pension schemes. The nature of these schemes is described in Note 21.

The expected cost of providing pensions and other retirement benefits to employees is charged to the profit and loss account as incurred over the period of employment of pensionable employees.

E Taxation

Irish and overseas corporation tax payable is provided on taxable profits at current rates.

Deferred taxation is provided, using the liability method, on material timing differences at the average tax rates expected to apply when such timing differences are expected to reverse.

F Tangible Fixed Assets

All tangible fixed assets are stated at cost, net of accumulated depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful life.

Useful lives and residual values are re-appraised regularly and currently fall in the following ranges:

	Useful life (Years)	Residual value (%)
Flight Equipment:		
Aircraft fleet and major spares		
- Short-haul aircraft	18	10
- Long-haul aircraft	20	10
Rotable spares	5 to 15	Nil
Modifications to leased aircraft	Period of lease	Nil
Depreciable Property:		
Freehold	Principally 50	Nil
Leasehold	Period of lease	Nil
Equipment:		
Ground equipment	3 to 20	Nil
Other	2 to 10	Nil

A proportion of the cost of owned aircraft, equivalent to the estimated cost of the next major airframe and engine overhaul, is amortised over the period to the date of the next major maintenance check. The costs of major airframe and engine overhauls for owned aircraft are capitalised as part of the cost of the aircraft.

G Financial Fixed Assets

Interests in subsidiary undertakings are stated in the Company’s balance sheet at cost, less provision for any permanent impairment in value.

H Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost is based on average invoice price. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Stocks which are known to be obsolete at the balance sheet date are written off and provision is made in respect of stocks which may become obsolete in the future.

I Cash and Liquid Resources

Cash is defined as cash on hand together with deposits repayable on demand. Deposits repayable on demand are defined as those which can be withdrawn at any time and without penalty or where a maturity or period of notice of not more than 24 hours has been agreed.

Liquid resources are defined as stores of value which are readily convertible into known amounts of cash at or close to their carrying amount without curtailing or disrupting the business. They primarily consist of deposits held with a period of notice greater than 24 hours.

J Leases

Assets held under finance leases, which transfer substantially all the risks and rewards of ownership to the Group, are initially recorded at their fair value at the inception of the lease. The equivalent liability, categorised as appropriate, is included under "Creditors due within and after one year". Assets are depreciated over the lease term or their useful economic lives, as appropriate. Finance lease charges are allocated over the periods of the leases to produce constant rates of return on the outstanding balances.

Rentals under operating leases are charged on a straight line basis over the lease term.

K Aircraft maintenance

Provision is made, on a time apportioned basis, for aircraft maintenance costs to be incurred in connection with major airframe and engine overhauls on leased aircraft where the lease terms impose obligations on the lessee to have these overhauls carried out. The actual costs of the overhauls are charged against the provision.

L Foreign Currency

In the accounts of individual companies, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction or, where appropriate, at the rates of exchange in related forward exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange prevailing at the balance sheet date or, where appropriate, the rates of exchange in related forward exchange contracts.

Gains and losses arising from foreign currency translations and on settlement of amounts receivable and payable in foreign currency are dealt with in the profit and loss account.

For the purposes of consolidation of subsidiaries, the closing rate/net investment method is used, under which translation gains or losses are shown as movements on reserves. Profit and loss accounts of overseas subsidiaries are translated at average exchange rates.

M Treasury Instruments

The Group enters into transactions in the normal course of business using a variety of treasury instruments in order to hedge against exposures to fluctuating exchange rates, interest rates and fuel costs. These transactions are accounted for in accordance with their economic substance.

The principal transactions are forward contracts and currency swaps entered into in order to change the currency exposure of foreign currency debt positions. Such forward contracts and swaps are revalued at closing spot rates of exchange and the resulting gains and losses are accounted for on a consistent basis with gains and losses on the retranslation of the related debt (Accounting Policy L). The interest effect of these transactions is accounted for evenly over the duration of the contracts.

Forward contracts and related instruments designed to hedge future transactions, such as foreign currency expenditure, are disclosed in the accounts as commitments and are accounted for on a consistent basis with the related transactions.

Notes to the Consolidated Accounts
Year Ended 31 December 2003

1. Turnover and Operating Profit

	2003	2002 Continuing Operations	2002 Discontinued Operations	2002 Total
	€000	€000	€000	€000
Turnover	**888,298**	958,650	212,286	1,170,936
Cost of sales	**651,598**	692,195	201,775	893,970
Gross Profit	**236,700**	266,455	10,511	276,966
Operating expenses				
Selling and marketing	**79,857**	126,479	199	126,678
Administrative	**68,561**	78,942	1,093	80,035
Loss/(profit) on exchange	**5,317**	(2,812)	-	(2,812)
Employee profit sharing scheme (Note 20)	**8,822**	7,511	-	7,511
	162,557	210,120	1,292	211,412
Operating profit before exceptional credit	**74,143**	56,335	9,219	65,554
Employee participation - exceptional (Note 2)	**-**	1,577	-	1,577
Operating profit after exceptional credit	**74,143**	57,912	9,219	67,131

Segmental disclosure of turnover by source and destination, and of the results and net assets of the Group are not provided as the Directors are of the opinion that disclosure of such information would be prejudicial to the interests of the Group.

2. Exceptional Items

	2003	2002
	€000	€000
Costs of Fundamental Restructuring		
- Employee Share Ownership Plan ("ESOP") (a)	**-**	(38,091)
- Aircraft provisions (b)	**-**	(33,148)
	-	(71,239)
Profit on Disposal of Fixed Assets and Investments (c)	**-**	26,970
Employee Share Participation Scheme (d)	**-**	1,577
Discontinued Operations		
Profit on Exit from Non-Core Activities (e)	**-**	12,089
Net exceptional items before tax	**-**	(30,603)
Tax on exceptional items	**-**	4,940
Net exceptional items after tax	**-**	(25,663)

(a) Provision was made in 2002 for the nominal value of the shares to be issued to the ESOP (see Note 20).

(b) Provisions were made in 2002 in respect of the return of aircraft to lessors as part of the rationalisation of the fleet and the write off of aircraft related assets.

(c) During 2002 the Group disposed of surplus aircraft, property and other assets.

(d) A provision created in 1999 in respect of the Employee Share Participation Scheme was released in 2002 as it was no longer required.

(e) The amounts in 2002 relate to the disposal of the Group's shareholdings in a number of subsidiaries, the recovery of certain debts previously written off and provisions in respect of former subsidiaries which were no longer required.

3. Interest Payable and Similar Charges

	2003 €000	2002 €000
On bank loans, overdrafts and other loans:		
- repayable within five years, by instalments	**2,197**	3,562
Finance lease interest	**22,481**	21,136
Interest on irredeemable capital	**254**	254
Other interest	**-**	1,434
Finance charge on discounted provision	**2,400**	2,730
	27,332	29,116

4. Profit on Ordinary Activities before Taxation

	2003 €000	2002 €000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned	**43,631**	48,253
- held under finance leases	**26,077**	19,140
Operating lease rentals payable		
- plant and machinery	**777**	959
- aircraft	**34,183**	88,309
- property	**8,431**	10,589
Auditors' remuneration	**125**	143

In accordance with Section 3 (2) of the Companies (Amendment) Act, 1986, the profit and loss account of the Company is not presented. The profit of the Company for the year ended 31 December 2003 amounted to €nil (2002 : €nil).

5. Directors' Emoluments

	2003 €000	2002 €000
Fees	**35**	-
Other emoluments (including pension contributions)	**898**	746
Pension payments to former director	**101**	90
	1,034	836

The annual remuneration of Mr W Walsh as Chief Executive of Aer Lingus Group plc as at 31 December 2003 was as follows:

		€000
Fees		**13**
Basic salary		**296**
Performance related payments made in 2003		**69**
Superannuation:	standard company benefits	**18**
	additional benefits provided to the chief executive	**55**
Other benefits		**47**
Total annual cost		**498**

6. Staff Costs

The average number of persons employed by the Group in the financial year was 4,281 (2002: 5,245) and their associated payroll costs were as follows:

	2003 €000	2002 €000
Wages and salaries	**206,983**	223,893
Social welfare costs	**20,055**	23,384
Pension costs (Note 21)	**14,267**	14,637
	241,305	261,914
Profit sharing scheme (Note 20)	**8,822**	7,511
	250,127	269,425

7. Taxation

The tax charge for the year comprises:

	2003 €000	2002 €000
Current tax		
Ireland		
Corporation tax	**212**	568
Revision of previous years' provisions	**(230)**	(3,797)
Overseas		
Corporation tax	**-**	2,554
Revision of previous years' provisions	**-**	(2,034)
Total current tax	**(18)**	(2,709)
Deferred tax		
Origination and reversal of timing differences	**6,887**	5,529
Other	**3,317**	(1,558)
Total deferred tax	**10,204**	3,971
Total tax	**10,186**	1,262

The differences between profit on ordinary activities multiplied by the standard Irish corporation tax rate of 12.5% (2002: 16%) and the current tax charge for the year are:

	2003 €000	2002 €000
Profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2002: 16%)	**9,925**	5,919
Effects of:		
Expenses not deductible for tax purposes	**49**	126
Capital allowances in excess of depreciation	**(268)**	(6,005)
Movement in tax losses	**(7,824)**	3,713
Movement in provisions	**(788)**	(844)
Differences in tax rates	**(882)**	213
Revision of previous years' provisions	**(230)**	(5,831)
Current tax credit for year	**(18)**	(2,709)

8. Earnings per share

	2003	2002
Weighted average number of shares in issue (000)	**255,790**	255,790
Profit for the year (€000)	**69,217**	35,315
Earnings per share (€ cent)	**27.1c**	13.8c
Profit for the year from continuing operations before exceptional items (€000)	**69,217**	54,585
Earnings per share – continuing operations before exceptional items (€ cent)	**27.1c**	21.3c

9. Tangible Assets

	Flight Equipment	Property Freehold/ Leasehold	Ground Equipment	Other Equipment	Total
	€000	€000	€000	€000	€000
Cost					
Beginning of year	906,652	41,422	59,054	72,382	1,079,510
Additions	38,832	509	329	3,483	43,153
Transfer to maintenance provisions (Note 16(b))	(324)	-	-	-	(324)
Reclassifications	(301)	(27)	(721)	(6,410)	(7,459)
Disposals	(44,086)	-	(1,645)	(102)	(45,833)
End of year	900,773	41,904	57,017	69,353	1,069,047
Depreciation					
Beginning of year	349,747	24,211	38,164	53,142	465,264
Transfer to maintenance provisions (Note 16(b))	(4,066)	-	-	-	(4,066)
Charge for year	52,028	4,222	3,887	9,571	69,708
Reclassifications	(2,938)	186	(231)	(4,476)	(7,459)
Disposals	(44,086)	-	(1,508)	(102)	(45,696)
End of year	350,685	28,619	40,312	58,135	477,751
Net Book Value					
End of year	550,088	13,285	16,705	11,218	591,296
Beginning of year	556,905	17,211	20,890	19,240	614,246
Leased assets included in the above:					
Net book value - end of year	404,197	-	-	-	404,197
Net book value – beginning of year	426,242	-	-	-	426,242

10. Financial Assets

Company	**Shares in subsidiary undertakings**
Cost	**€000**
At beginning and end of year	328,367

The principal group companies are Aer Lingus Limited and Aer Lingus Beachey Limited, both of which are wholly owned. Aer Lingus Limited is incorporated in Ireland and is the principal operating company. Aer Lingus Beachey Limited is incorporated in the Isle of Man and its principal activity is aircraft financing.

Full details of all Group companies will be filed with the Company's annual return. In addition the Group trades through a number of overseas branches.

11. Stocks

	2003	2002
	€000	€000
Sundry stocks	**1,295**	1,592

The replacement cost of stocks is not significantly different from their balance sheet values.

12. Debtors

	2003	2002
	€000	€000
Amounts falling due within one year:		
Trade debtors	**41,776**	47,232
Other debtors	**16,003**	23,756
Prepayments and accrued income	**6,109**	6,003
Value Added Tax	**1,214**	1,160
ESOT (Note 20)	**2,152**	-
	67,254	78,151
Amounts falling due after more than one year:		
Other debtors	**-**	3,750
ESOT (Note 20)	**100**	-
	67,354	81,901

13. Cash, short-term deposits and liquid resources

	2003 €000	2002 €000
Free cash		
Cash and demand deposit balances	**3,738**	3,721
Other deposit balances and liquid resources	**381,069**	363,565
	384,807	367,286
Restricted cash		
Restricted cash deposit balances held to repay certain finance lease obligations (a)	**257,720**	297,714
Other restricted deposits (b)	**13,717**	15,326
	271,437	313,040
Total	**656,244**	680,326

(a) The Group holds foreign currency deposits in order to meet certain finance lease obligations which are denominated in the same currency. The deposits together with the interest receivable thereon will be sufficient to meet the lease obligations and related lease interest over the period of the leases.

(b) The Group also held other restricted deposits to meet certain loan obligations.

14. Creditors: Amounts falling due within one year

	2003 €000	2002 €000
Bank loans and overdrafts (Note 15)	**15,207**	34,189
Finance lease obligations (Note 15)	**31,277**	34,448
Trade creditors	**32,954**	29,085
Accruals and deferred income	**99,414**	116,695
Ticket sales in advance	**110,310**	131,062
Taxation and social welfare (a)	**14,746**	15,108
ESOT (Note 20)		
- new shares to be issued	**38,091**	38,091
- profit sharing scheme	**14,756**	5,934
Other creditors	**52,153**	49,471
	408,908	454,083

(a) Taxation and social welfare creditors include:

	2003	2002
PAYE	**3,146**	3,370
Social welfare	**2,018**	2,303
Overseas taxation	**9,370**	9,435
Corporation tax	**212**	-
	14,746	15,108

15. Creditors: Amounts falling due after more than one year

		2003 €000	2002 €000
Loan capital			
Repayable	- within one year (Note 14)	**15,207**	34,189
	- from one to two years	**9,943**	8,710
	- from two to five years	**3,661**	19,587
Irredeemable capital (a)		**6,349**	6,349
		35,160	68,835
Included in Creditors falling due within one year (Note 14)		**(15,207)**	(34,189)
		19,953	34,646
Finance lease obligations			
Repayable	- within one year (Note 14)	**31,277**	34,448
	- from one to two years	**80,863**	35,360
	- from two to five years	**116,245**	186,971
	- after five years	**166,466**	199,762
		394,851	456,541
Included in Creditors falling due within one year (Note 14)		**(31,277)**	(34,448)
		363,574	422,093
		383,527	456,739

(a) This loan, which is not currently repayable in the event of a winding up, was advanced by the principal shareholder (Note 17). Interest is payable thereon, as determined by the Minister for Finance from time to time, and the current rate is 4% per annum (2002 - 4% per annum).

(b) Loan capital and lease obligations of €421 million (2002 - €513m) are secured on various assets of the Group, principally aircraft.

(c) Loan capital and lease obligations of €253 million (2002 - €330m) at 31 December 2003 are denominated in various foreign currencies, principally US Dollars and Sterling.

16. Provisions for Liabilities and Charges

	Business repositioning (a) €000	Aircraft maintenance (b) €000	Maintenance contracts (c) €000	Deferred taxation €000	Post employment benefits (d) €'000	Other (e) €000	Total €000
Beginning of year	65,617	50,409	43,578	5,050	23,230	23,756	211,640
Provided during year	-	39,750	(8,723)	10,204	(2,932)	10,904	49,203
Finance charge on discounted provision	-	-	2,400	-	-	-	2,400
Utilised during year	(12,017)	(26,792)	-	-	(247)	(13,564)	(52,620)
Transfers from fixed assets	-	3,742	-	-	-	-	3,742
Translation adjustment	(15)	(10,511)	-	-	(472)	(2,047)	(13,045)
Other	2,930	(2,364)	-	-	-	-	566
End of year	56,515	54,234	37,255	15,254	19,579	19,049	201,886

(a) Business repositioning

A provision for business repositioning costs is recognised when a constructive obligation exists. The amount of the provision is based on the terms of business repositioning measures, including employee severance and early retirement measures which have been communicated to employees, and fleet rationalisation. They represent the Directors' best estimate of the cost of these measures, having regard to the current status of negotiations. The major part of the provision is expected to be utilised within two years.

(b) Aircraft maintenance

Provision is made on a time apportioned basis for maintenance of leased aircraft. The provisions will be utilised as the major airframe and engine overhauls take place. When aircraft leases expire and the aircraft pass into Group ownership, or when the opposite occurs, the related maintenance provisions are transferred to or from fixed assets as appropriate.

(c) Maintenance contracts

A fair value provision was made for contracts entered into as part of the disposal of the Group's maintenance activities and is expected to be utilised over a period of five years.

(d) Post employment benefits

This comprises a provision for post cessation of employment/retirement obligations to current and former employees.

(e) Other

Other provisions relate to expected costs of terminating financing arrangements in relation to aircraft sold in 1994, frequent flyer provisions and the equalisation of aircraft operating lease costs.

The deferred tax provision comprises:

	2003	2002
	€000	€000
Accelerated capital allowances	**45,376**	44,691
Tax losses carried forward	**(17,750)**	(20,875)
Provisions	**(12,372)**	(15,449)
Other	**-**	(3,317)
Provision for deferred tax	**15,254**	5,050
Provision - beginning of year	**5,050**	1,753
Charge in profit and loss account	**10,204**	3,971
Disposal of subsidiary	**-**	(674)
Provision - end of year	**15,254**	5,050

17. Called-Up Share Capital

	2003	2002
	€'000	€'000
Authorised:		
500,000,000 shares of €1.25 each	**625,000**	625,000
Issued and fully paid:		
255,790,555 shares of €1.25 each	**319,738**	319,738

95.24% of the issued share capital of the Company was held by the Minister for Finance on behalf of the Irish Government at the balance sheet date. In the ordinary course of its business, the Group purchases services from entities controlled by the Irish Government.

18. Minority Interests

	2003	2002
	€000	€000
Beginning of year	-	4,045
Share of retained profit for year	-	418
Disposal of subsidiaries	-	(4,463)
End of year	-	-

19. Consolidated Cash Flow Statement

A. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2003 €000	2002 €000
Operating profit before exceptional items	**74,143**	65,554
(Profit)/loss on disposal of fixed assets	**(112)**	2,945
Depreciation of tangible fixed assets	**69,708**	66,409
Movement in provisions	**(920)**	(15,125)
Decrease in stocks	**297**	1,259
Decrease in debtors	**12,451**	23,472
(Decrease)/increase in creditors	**(23,742)**	15,054
(Profit)/loss on exchange	**(8,145)**	8,670
Net Cash Inflow from Operating Activities before Restructuring Payments	**123,680**	168,238
Restructuring payments	**(12,017)**	(82,831)
Net Cash Inflow from Operating Activities	**111,663**	85,407

B. Analysis of Cash Flows for Headings netted in the Cash Flow Statement

	2003 €000	2002 €000
Returns on investments and servicing of finance		
Interest received	**32,524**	31,438
Interest paid	**(4,688)**	(11,003)
Finance lease interest paid	**(20,354)**	(21,294)
Net cash inflow/(outflow) for returns on investments and servicing of finance	**7,482**	(859)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(43,369)**	(20,150)
Purchase of financial fixed assets	**-**	(1,022)
Sale of financial fixed assets	**-**	592
Sale of tangible fixed assets	**129**	59,374
Net cash (outflow)/inflow for capital expenditure and financial investment	**(43,240)**	38,794
Acquisitions and disposals		
Acquisition of interest in subsidiary undertaking	**-**	(9,922)
Sale of interests in subsidiary undertakings	**3,020**	(25,006)
Net cash inflow/(outflow) from acquisitions and disposals	**3,020**	(34,928)
Financing		
Capital element of finance leases	**(17,167)**	(68,002)
Inception of finance leases	**-**	68,160
New loan capital	**-**	20,208
Repayment of loan capital	**(27,719)**	(8,111)
Decrease in restricted deposits	**1,866**	103,937
Net cash (outflow)/inflow from financing	**(43,020)**	116,192

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 03 €000	Cash Flow €000	Exchange Movement €000	Net Funds (Debt) 31 Dec 03 €000
Cash				
Cash in hand, at bank	3,721	760	(743)	3,738
Overdrafts	(6,044)	3,322	351	(2,371)
	(2,323)	4,082	(392)	1,367
Finance				
Debt due within one year	(28,145)	15,309	-	(12,836)
Debt due after one year	(34,646)	12,410	2,283	(19,953)
Finance leases	(456,541)	17,167	44,523	(394,851)
Restricted deposits	313,040	(1,866)	(39,737)	271,437
	(206,292)	43,020	7,069	(156,203)
Liquid resources				
Other cash deposits and liquid resources	363,565	32,033	(14,529)	381,069
Total	154,950	79,135	(7,852)	226,233

20. Employee Participation

Employee Share Ownership Plan ("ESOP")

An ESOP was established by a Trust Deed executed on 28 April 2003. Under the terms of the ESOP, Aer Lingus Group plc will, provided certain conditions are met, issue shares to an Employee Share Ownership Trust ("ESOT") established to hold these shares on behalf of participants. Following the issue of these shares, the combined shareholding held on behalf of participants by the ESOT and the existing Employee Share Participation Scheme established in 1996 will be 14.9% of the issued share capital of Aer Lingus Group plc. The total number of new shares to be issued under the ESOP is 30,472,725 with a nominal value of €38.1 million. These shares are expected to be issued within one year.

At 31 December 2003, the numbers of shares held by the ESOT and the Employee Share Participation Scheme were 2,109,604 and 10,070,899 respectively or a total of 4.76% of the issued share capital of the company.

Profit Sharing Scheme

As part of the 2001 Survival Plan, a new profit sharing scheme was also established. Subject to confirmation by the Chief Executive that he is satisfied that staff are co-operating with the implementation of the Labour Relations Commission's proposals issued in 2001 in respect of the Survival Plan, the Group will make 10% of the Group profit before tax and exceptional items available annually to the ESOT by way of profit share for the benefit of employees up to an aggregate maximum of €25.4 million. The profit sharing charge for the year included in the profit and loss account for 2003 is determined as follows:

	€000
Gross profit	236,700
Operating expenses	(153,735)
Interest receivable and similar income	32,592
Interest payable and similar charges	(27,332)
	88,225
Profit share - 10%	8,822

Movements on the Profit Sharing Scheme from inception are as follows:

	€m
Maximum entitlement	25.4
Provision made in respect of profits for:	
2002	(5.9)
2003	(8.8)
Balance remaining	10.7

The Group will also make a loan of up to €15.2 million available to the ESOT to be used to acquire shares issued under the existing Employee Share Participation Scheme. The amounts payable to the ESOT under the profit sharing scheme will act as security for any loans made available by the Group to the trust, and will be utilised by the ESOT to repay those loans to the Group. At 31 December 2003, the amount drawn by the ESOT under this facility was €2.2 million (Note 12).

21. Pensions

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

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

The rules of the schemes provide for the following in the event that there is an actuarial surplus or deficiency in the schemes:

• Surplus
If an actuarial valuation discloses a surplus, it shall be applied by the Trustees, after consultation with the Actuary, for the purpose of increasing the benefits to members or reducing the rate of contribution by the employers and/or members.

• Deficiency
If an actuarial valuation discloses a deficiency, the Trustees shall take such measures as they think appropriate, having regard to the recommendations of the Actuary, to remedy any such actual or anticipated deficiency provided that no such measures shall, without the consent of the employers, make provision for payment of any increased contribution by the employers or without the consent of the members make provision for the payment of any increased contribution by the members.

As the company contribution rate is entirely independent of the scheme funding level, the value of the schemes' assets and liabilities are not relevant in the context of reporting under FRS 17, Retirement Benefits.

The Group's contributions charged for the year were €14.3 million (2002 - €14.6m), based on rates specified by the scheme rules. The actuarial reports are not available for public inspection.

22. Guarantees and Other Financial Commitments

(a) Capital commitments

At 31 December 2003 the Group had capital commitments as follows:

	2003 €000	2002 €000
Contracted for but not provided		
- Aircraft and equipment	**155,174**	120,453
- Other	**1,572**	1,797
Authorised but not contracted for	**28,502**	21,313
	185,248	143,563

(b) Lease commitments

At 31 December 2003 the amount payable in the following 12 months under operating leases were as set out below:

	Property €000	**Aircraft €000**	**Plant and Machinery €000**
Operating leases which expire:			
Within one year	1,185	4,212	267
Between two and five years	2,273	30,153	104
After five years	2,588	4,238	-
	6,046	38,603	371

(c) Contingent liabilities

(i) The Company has irrevocably guaranteed the liabilities as defined in Section 5(c) of the Companies (Amendment) Act, 1986 of the following subsidiary undertakings incorporated in Ireland: Aberport Limited, Aer Lingus Limited, Crodley Limited, Dirnan Ireland Limited, Duneast Limited, Santain Developments Limited, Seres Limited and Shinagh Limited.

(ii) There are certain legal and other claims, which arise from the Group's activities which the Directors consider will not materially affect the financial position of the Group.

(d) Treasury contracts

Due to the scale of its international operations and the nature of its business, the Group is exposed to the effects of fluctuations in exchange rates and interest rates. These exposures arise principally in relation to foreign currency debt, anticipated revenues and expenditure commitments. In order to hedge against these exposures, the Group has entered into various treasury arrangements to change the currency exposure of certain debt and to fix interest rates and exchange rates. The principal commitments outstanding under treasury arrangements at 31 December 2003 are forward purchases of US Dollars 181 million and Sterling £16 million (2002: US Dollars 174m and Sterling £20m) and forward sales of US Dollars 48 million and Sterling £60 million (2002: US Dollars nil and Sterling £41m).

Notes

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