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	2002 €000	2001 €000
Turnover - Continuing Operations	**958.6**	1,097.2
Operating Profit (Loss) - Continuing Operations (1)	**63.8**	(52.1)
EBITDAR - Continuing Operations (2)	**176.8**	104.3
Net exceptional cost	**(25.7)**	(104.1)
Profit (Loss) for the year	**35.3**	(139.9)
Earnings (Loss) per share (cent)	**13.8c**	(54.7)c
Balance Sheet		
Shareholders' funds	**255.6**	223.9
Free cash	**367.3**	169.5
Net cash and liquid resources (3)	**154.9**	66.0

(1) Operating profit on continuing operations before employee participation.

(2) Earnings before employee participation, interest, tax, depreciation, amortisation and aircraft rentals.

(3) Free cash plus restricted cash deposits less finance lease obligations and debt.

how

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 the Dublin Cargo Terminal and is currently 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.

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.

DR JOHN KEANE
Dr Keane was appointed to the board in December, 1998. He is a Consultant Ophthalmic Physician with the Midland Health Board. He was formerly a member of the Midland Health Board, and a director of the VHI.

DAN LOUGHREY
Dan Loughrey joined Aer Lingus in 1992 and was appointed Corporate Affairs Director in 1994. He was appointed to the Board in November 2001. Prior to joining Aer Lingus he held a number of senior positions in the Office of the Revenue Commissioners

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 p.l.c., 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.

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 Executive of Futura between 1998 and 2000. Prior to his appointment as Chief Executive he held the position of Chief Operations Officer.

its

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Chairman's Statement

working

TAKE OFF

I am pleased to report that 2002 was a year of significant progress for Aer Lingus.

After a very difficult year in 2001, Aer Lingus responded quickly during 2002 to improve its performance and financial position.

As a result, the Group returned an operating profit (before employee participation) in 2002 on its continuing airline activities of €63.8 million. The comparable loss in 2001 amounted to €52.1 million.

The profit for the year amounted to €35.3 million, after net exceptional charges of €25.7 million.

In addition, the Group worked hard to strengthen its cash position during the year through a series of asset sales, the curtailment of capital expenditure and the generation of new funding. The Group's free cash position was increased from €169.5 million at the end of 2001 to €367.3 million at the end of 2002.

The Survival Plan was implemented in the first half of 2002. In addition, further significant cost reduction and commercial initiatives were identified and implemented. These include new leisure and business pricing and advertising initiatives, new routes and reduced distribution costs arising from commission reductions and increased sales through our website, aerlingus.com.

I would like to thank Willie Walsh and his management team for their initiative and dedication in delivering the 2002 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 the last year. A lot of credit is due to staff who have accepted and implemented the changes required to build a sustainable business.

I would like to thank the members of the Board for their work and commitment during 2002. There were a number of changes to the Board in 2002. The terms of office of Rose Hynes, Des Richardson and Paddy Wright all ended during the year. I would like to thank each of them for their significant contributions to the development of the airline over a number of years. Ivor Fitzpatrick was appointed to the Board in June 2002. A Worker Director election also took place during 2002. I wish to thank Mick Sweeney, Joan Loughnane and Dermot Rafferty for their work on the Board during their terms of office and welcome Frank Cox, Sean Murphy and Nora O'Reilly to the Board. I also wish to congratulate Willie Clarke on his re-election to the Board.

I would like to thank the Minister for Transport, Seamus Brennan T.D., the former Minister for Public Enterprise, Mary O'Rourke and the officials of the Departments of Transport, Public Enterprise and Finance for their assistance throughout 2002.

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

efficient

2002 was a year of major change in Aer Lingus. We made substantial progress in moving the business from the threat of financial crisis at the outset of the year to a return to profitability by year-end.

The trading environment we currently face is very difficult. An unstable international political scene combined with weakness in key economies and intense competition pose major challenges. Aer Lingus is in a much stronger financial and commercial position to overcome these challenges than at the outset of 2002. Despite the progress we have made, however, it is imperative that we press on urgently with the programme of change in Aer Lingus to build a strong, commercially robust business capable of generating sustainable profits at all stages of the economic cycle.

The first priority in 2002 was the stabilisation of the business through the rapid and full implementation of the Survival Plan. While this was largely achieved by mid-year the extent to which the air transport industry was changing only became clear in the course of the implementation of the Plan. The industry has changed fundamentally and assumptions that fares, yields and market dynamics would gradually return to pre-2001 levels have proved to be incorrect. We recognised this quickly in Aer Lingus and immediately moved on from the Survival Plan to put in place a business model to address the new situation.

In broad terms this involved simplifying the business by focusing on the core customer requirements, substantially reducing economy and business fares and implementing further cost reductions across all cost captions.

Specific business actions included:

- A further cost reduction programme of €130 million in addition to the €190 million achieved in the Survival Plan.
- Over 3 million cheap economy fares made available through the Aer Lingus website aerlingus.com.
- Restructuring and major reductions in business fares resulting in a total cost of €65 million with fares reduced by up to 60% across all short-haul routes.
- Significant reduction in distribution costs through the aggressive promotion of direct sales through aerlingus.com and through reductions in trade commissions.
- Greater asset utilisation by introducing nine new routes and additional capacity on existing routes without any new aircraft or staff resources. We are adding four additional routes in 2003.

Chief Executive's Statement

working

The results of these actions have been dramatic and have led to the transformation in the performance of the business in 2002. Our cost base has been reduced by 22%. These cost reductions were passed on to our customers in lower fares which has stimulated traffic resulting in higher load factors. The outcome is a return to profitability ahead of the projections in the Survival Plan. This is due in the main to the additional actions we took during 2002 which recognised the fundamental change taking place in this industry.

For the customer air transport is about price, for the business now and into the future generating sustainable profit is all about management of cost.

The immediate business objective is to further develop the current business model of growing profitably through low fares sustained by a decreasing cost base. There is much more to be done in this regard and we are committed to continuing to reduce our costs and to passing on the benefits to our customers in the form of still lower fares.

We have embarked on a major review of our fleet and we see this as a significant opportunity for a further step change in our cost base.

The objective is to greatly simplify our fleet structure. Complexity involving multiple aircraft types and sizes drives extra costs and operational inflexibility.

We will also continue to generate greater efficiency in our aircraft utilisation and greater flexibility and simplicity in our work practices. The people who work in Aer Lingus have made a great contribution to the progress we have made so far. They more than anyone know at first hand how much more we need to do.

Aer Lingus achieved an operating margin of 6.7% in 2002. While this represents significant progress and would traditionally have been regarded as satisfactory in the airline sector it is not adequate for a business of this scale. We have set ourselves a medium term target of 15% operating margin. This is necessary and achievable but will require us to redouble our efforts in transforming the business. The Survival Plan and the follow-on actions have made us leaner, more flexible and more competitive. We always had a strong reputation for service. We are now increasingly becoming the customers' first choice for price. However, we are not complacent. We know there is still a great deal to do.

Willie Walsh Chief Executive

more

low fares

Overview
The Group recorded an operating profit on continuing activities (before employee participation) of €63.8 million in 2002 compared with a loss of €52.1 million in 2001.

The profit for the year, after net exceptional losses of €25.7 million, amounted to €35.3 million (2001: loss of €139.9 million, after net exceptional losses of €104.1 million).

As a result of the above, shareholders' funds increased to €255.6 million at 31 December, 2002 (2001: €223.9 million).

Operating Review
The economic and industrial environment in which Aer Lingus operates went through further change in 2002. While growth continued albeit at a slower rate in Ireland, economic conditions were generally weak in Continental Europe and the United States of America. This heightened the competitive pressure on airlines to reduce yields and fare levels and to reduce costs accordingly.

Passenger numbers fell by 3.9% to 6.3 million in 2002. The fall in business traffic and our continuous policy of reducing prices resulted in significant decreases in average yields. However, we achieved a 7 point improvement in passenger load factor to 79% in 2002.

Total cargo carried on Aer Lingus services, excluding mail, decreased by 20% due to weaker customer demand in the United States and Continental Europe.

The successful implementation of the Survival Plan prepared in October 2001 and further significant initiatives to reduce costs led to a reduction of €255 million (22.1%) in operating costs on continuing operations in 2002. This cost reduction offset the decrease in revenue and resulted in an operating profit on continuing operations (before employee participation) of €63.8 million for the year.

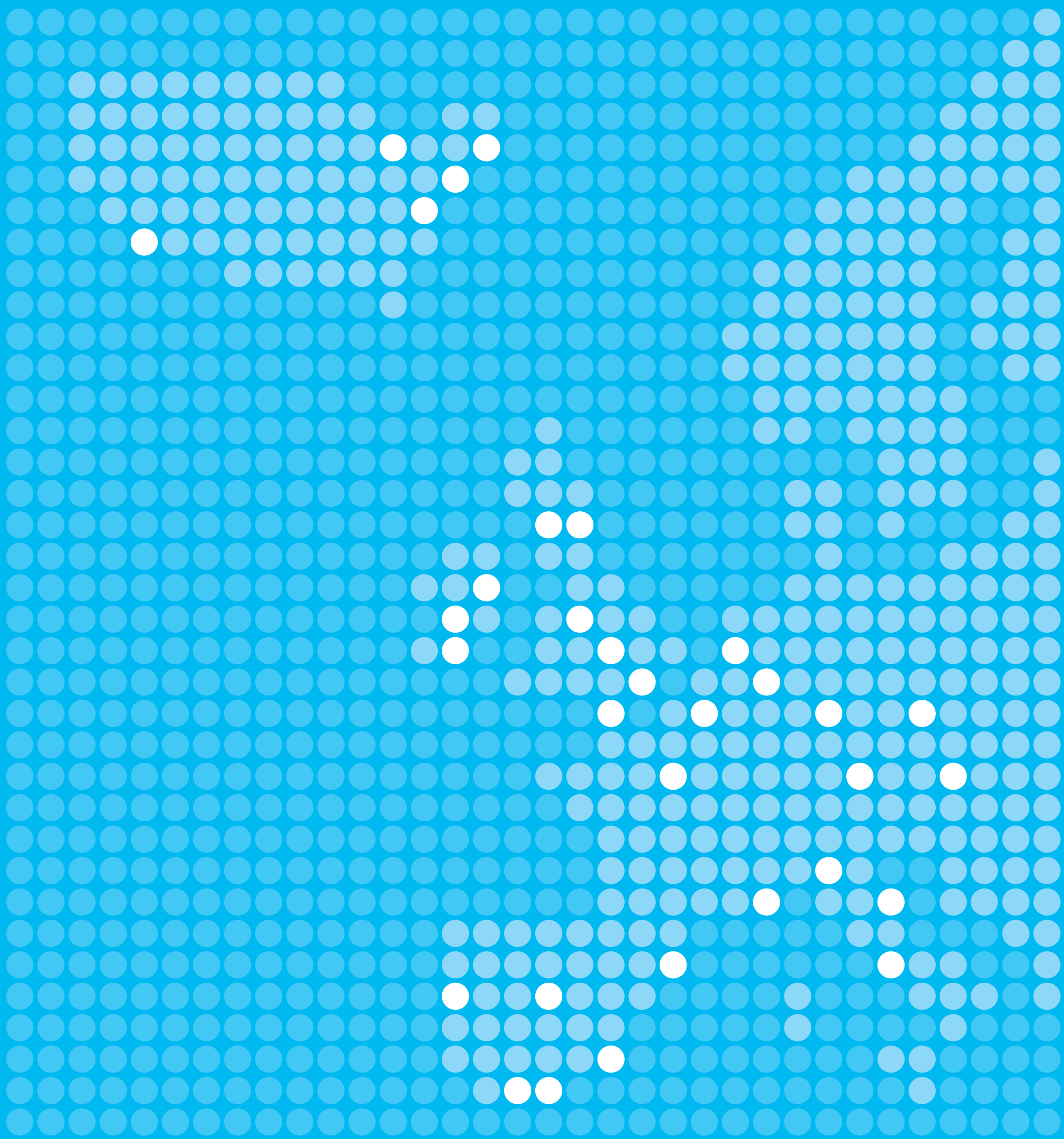
Scheduled Passengers
We reduced total capacity, as measured by Available Tonne Kilometres (ATKs), by 18.4% to 1,221 million in 2002. However, as an indicator of improved efficiency, the decline in output sold was limited to 11.7% at 881 million Revenue Tonne Kilometres (RTKs).

Transatlantic traffic fell by 15.7% to 0.9 million passengers in 2002. Following the review of the transatlantic network contained in the Survival Plan, the Newark and Baltimore routes were not operated in 2002. Aer Lingus continues to be the market leader on transatlantic routes into and out of Ireland and this market accounted for approximately 38% of 2002 scheduled passenger revenue.

Total traffic on European routes increased by 1.5% compared to 2001. There was an increase in 2002 of 4.6% in passenger numbers on the three London routes of Heathrow, Gatwick and London City. Traffic levels on the UK Provincial commuter routes were 8.2% behind 2001 levels, in line with the reduction in capacity. Traffic on the Continental European network was 14.2% ahead of last year, following the introduction of nine new routes – Dublin to Barcelona, Nice, Malaga, Alicante, Faro, Geneva, Prague and Vienna and Cork to Malaga.

Cargo
The total cargo carried on Aer Lingus services, excluding mail, decreased by 20% to 28,700 tonnes. Total cargo revenue fell by 23% compared to last year.

more



routes

Tonnage carried on the transatlantic network decreased by 5,300 tonnes (21%) and tonnage on the European network decreased by 1,900 tonnes (17%).

In line with this volume decrease, transatlantic scheduled revenue fell by 29.6% and European scheduled revenues fell by 16.1%. The transatlantic network continues to generate the largest proportion of cargo revenue, representing 81% of scheduled cargo revenue for 2002.

Mail handling revenue and terminal handling revenue decreased by 24% and 13% respectively.

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

Fleet

A fundamental strategic review of the European fleet is currently being undertaken. The current European fleet consists of five aircraft types from three different manufacturers. To date the review has reconfirmed the diseconomies and complexities associated with multiple aircraft types and concluded there is a strong case for accelerating the move to a single aircraft type or family. Negotiations with aircraft manufacturers and others have recently commenced.

Aer Lingus operated a peak fleet of 32 aircraft during 2002. The average age of the Aer Lingus fleet at 31 December 2002 was 8.2 years, which compares favourably with industry averages.

In order to realign capacity with demand Aer Lingus reduced its operating fleet in 2002. Two Boeing 737-400 aircraft were sold, one A330-300 and two BAe146-300s were returned to lessors and one A330-300 was retained on a power by the hour basis.

The A330-300 retained on a power by the hour basis in 2002 will return to the fleet on a normal operating lease basis in Spring 2003 to facilitate the re-opening of the Baltimore route and provide additional capacity on other routes.

Futura and Other Subsidiaries

During 2002 the Group disposed of its entire shareholding in its revenue accounting subsidiary, Aviation Services (Ireland) Limited and its reservations systems subsidiary, Timas Limited (trading as Galileo Ireland). It also disposed of its entire shareholding in its charter subsidiary, Compania Hispano Irlandesa de Aviacion SA (trading as Futura) to a newly established holding company, Charter Holdings Inversiones SL, in which the Group has retained a 20% interest.

Financial Review

Profit before Taxation

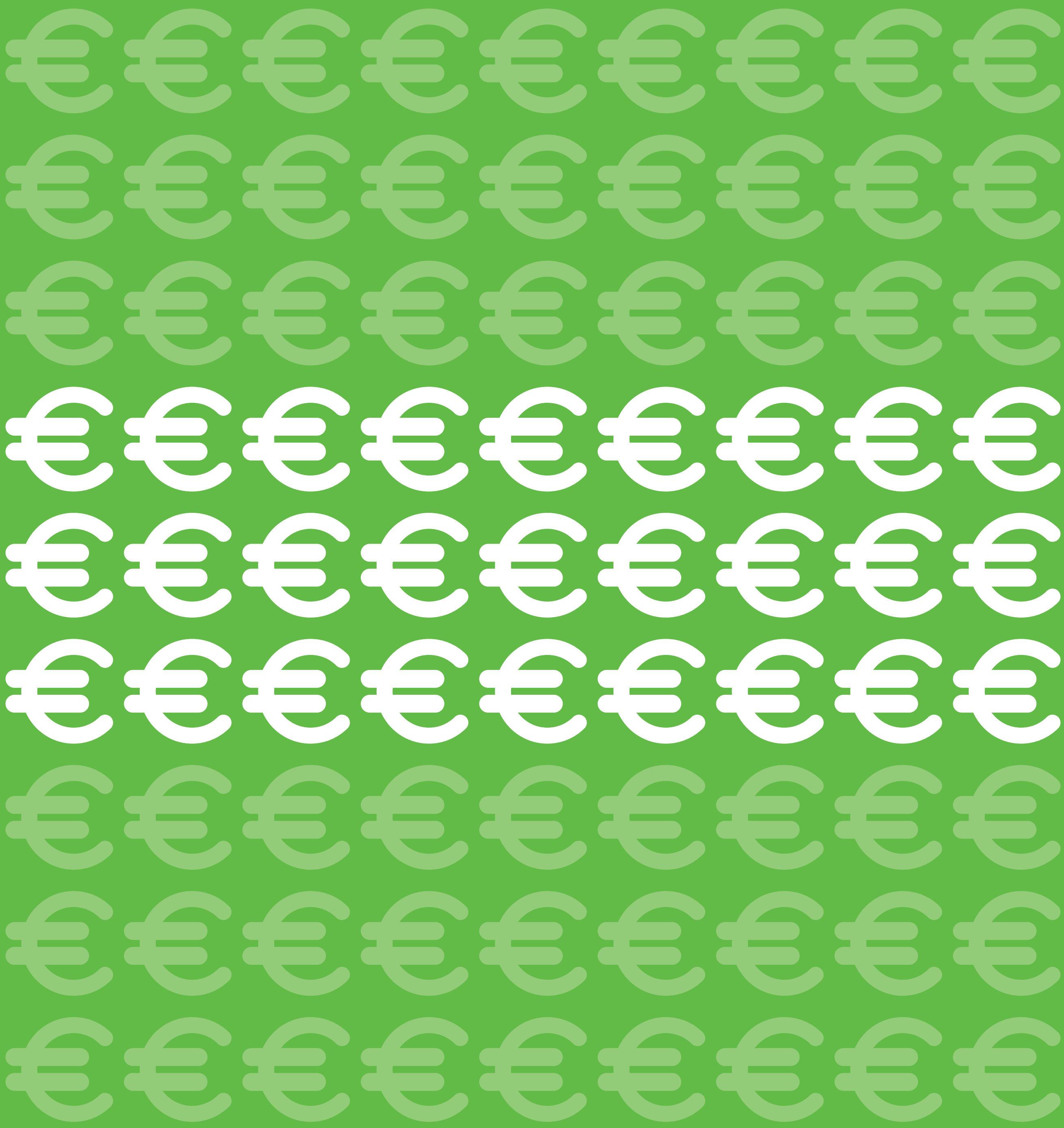
Group profit on ordinary activities before taxation amounted to €37.0 million in 2002 (2001: loss of €157.1 million).

Group turnover on continuing operations fell 12.6% to €958.6 million in 2002.

Total turnover, including discontinued operations, fell 11.6% to €1,170.9 million.

Costs on continuing operations were reduced by €255 million (22.1%) to €894.8 million in 2002, resulting in an operating profit on continuing operations of €63.8 million (2001: operating loss of €52.1 million). The operating margin on continuing activities (before employee participation) was 6.7% (2001: negative operating margin of 4.7%).

less



costs

The successful implementation of the Survival Plan and further significant cost reduction initiatives were the principal reasons behind the reduction of 22% in airline operating costs. Staff costs decreased by 25%. This was in line with the reduction in average staff numbers, which resulted mainly from the severance programme, whereby 2,000 staff left the Group. The reduction of 26% in distribution costs was a significant contributor to the profit recovery. Direct bookings through Aer Lingus' internet site aerlingus.com, which currently accounts for 32% of passenger sales, is a key element in the drive to minimise distribution costs. Fuel costs fell 29% owing to the reduction in capacity flown and a reduction in average fuel prices. Aer Lingus' policy for managing fuel price exposure is outlined in the treasury and risk management section below.

The EBITDAR margin on continuing operations was 18.4% compared with 9.5% in 2001.

The amount due in 2002 under the new and existing employee participation schemes was a total of €7.5 million, being 10% of the profit before exceptional items and taxation for the year of €75.1 million.

Exceptional costs of €30.6 million (before taxation) were incurred in 2002 - €38.1 million for shares to be issued under the Employee Share Ownership Plan, €33.1 million of provisions in respect of the rationalisation of the airline's fleet, less profits on the sale of aircraft and subsidiaries and sundry credits amounting to €40.6 million. Note 2 contains further details of the make-up of this amount.

Net interest income amounted to €2.0 million in 2002 compared with €8.7 million in 2001.

Taxation

A tax charge of €1.3 million arose in the year (2001: credit of €17.7 million). The 2002 charge was reduced by €5.8 million due to the revision of previous years' provisions.

Profit Per Share

The profit for the year was €35.3 million (2001: loss of €139.9 million), which resulted in earnings per share of 13.8c (2001: loss per share of 54.7c). The earnings per share on continuing operations before exceptional items were 21.3c (2001: loss per share of 15.1c).

Balance Sheet

Shareholders' funds increased to €255.6 million at the year-end (2001: €223.9 million) and the net cash position increased by €88.9 million to €154.9 million.

In October 2001 a decision by Government to facilitate private sector interests and staff in investing in Aer Lingus was conveyed to the Board. As detailed below, agreement has been reached on an increased shareholding of up to 14.9% for staff. Arrangements have not yet been activated in relation to private sector investment in the airline.

As detailed below, arrangements have now been agreed to increase the staff shareholding in Aer Lingus to 14.9%.

Review of Cash Flow

Cash generated from operating activities (before restructuring payments of €82.8 million) increased by €126.2 million to €168.2 million in 2002. This reflects the overall improvement in profitability of the Group in accordance with the factors identified in the operating review above.

Operating & Financial Review

WILLIE WALSH
Chief Executive

SEAMUS KEARNEY
Chief Operations Officer

BRIAN DUNNE
Chief Financial Officer

There was a net cash outflow from investments and servicing of finance in 2002 of €0.9 million compared to an inflow of €15.9 million in 2001.

A net tax repayment of €3.4 million arose in the year compared to a net tax payment of €4.8 million in 2001.

There was a net cash inflow for capital expenditure and financial investment of €38.8 million owing to the sale of aircraft and property assets and the curtailment and cancellation of capital expenditure.

A net cash outflow of €34.9 million arose on acquisitions and disposals as a result of the sale of interests in subsidiary companies.

These factors resulted in a cash inflow of €91.8 million for the year, before the management of liquid resources and financing.

A net increase in financing of €116.2 million added to the liquid resources available to the Group at year-end. This was generated by raising new financing of €88.4 million, the release of certain restricted deposits of €47.5 million, less the net repayment of existing financing.

Liquid Resources
As a result of the operating performance, asset sales and fund raising, the free cash and liquid resources balance increased by €197.8 million to €367.3 million at 31 December 2002. Net cash (cash and liquid resources less debt) at 31 December 2002 was €154.9 million, an increase from €66.0 million a year earlier.

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 business objectives of the Group. The emphasis is on risk management and, where possible, the protection of the Group 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.

During the year a comprehensive review of the activities of the treasury function was undertaken, assisted by independent external consultants. The review was satisfactory and it concluded that a strong control environment existed in the treasury function. In addition, the Board approved a revised treasury policy in January 2003. The revised policy reflects the re-structured Group and ensures the policy remains appropriate to current business requirements.

Financial market instruments are used solely to hedge an underlying exposure and the Group 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 dollar.

The exchange rate exposure is managed on a selective hedging basis, with a focus on the management of cash flow exposures.

DAN LOUGHREY
Corporate Affairs Director

NIALL WALSH
Services Director

LIZ WHITE
Human Resources Director

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 2002, the Group's dollar exposure for 2003 and 2004 was hedged at 100% and 55% respectively and the sterling exposure was hedged at 86% and 28% 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 the Group's 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 2002 Aer Lingus had fuel hedges covering approximately 62% of its estimated 2003 requirement.

Employee Share Participation Scheme
As outlined in Note 20, the existing employee share participation scheme was established in March 1996. At 31 December 2001, the maximum permitted number of shares in Aer Lingus Group plc had been issued to the trustees of the scheme for appropriation to staff and €1.6 million remained to be allocated in the form of cash. As 5% of the Group's profit before tax and exceptional items for 2002 exceeds €1.6 million, this amount will be paid in cash to staff participants.

As part of the airline's Survival Plan, agreement involving the Irish Government, the employee representatives and the Group was reached on the establishment of an employee share ownership plan ("ESOP") and a new profit sharing scheme.

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"), which will be 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 will be 14.9% of the issued share capital of Aer Lingus Group plc. The total number of shares to be issued under the ESOP is 30,472,725 with a nominal value of €38.1 million.

Under the terms of the profit sharing scheme, subject to certain conditions being met, 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 amount payable to the ESOT in respect of 2002 is €5.9 million.

Further information on the existing and the new arrangements is contained in Note 20.

consolidated accounts

for the year ended 31 December 2002

Directors' Report
year ended 31 December 2002

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 2002.

Principal Activities and Business Review
The principal continuing activities during the year were the provision of passenger and cargo air transportation services to the UK, mainland Europe, the US and within Ireland.

During 2002, the Group disposed of its entire shareholdings in its revenue accounting subsidiary, Aviation Services (Ireland) Limited and its reservations systems subsidiary, Timas Limited (trading as Galileo Ireland). It also disposed of its entire shareholding in its charter subsidiary, Compania Hispano Irlandesa de Aviacion SA (trading as Futura) to a newly established holding company, Charter Holdings Inversiones SL, in which the Group has retained a 20% interest.

Results for the Year and State of Affairs as at 31 December 2002
The consolidated profit and loss account for the year ended 31 December 2002 and the consolidated balance sheet at that date are set out on pages 16 and 17. The profit for the year, after net exceptional losses of €25.7 million, amounted to €35.3 million (2001 – loss of €139.9m, after net exceptional losses of €104.1m).

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

	€ million
Balance, 31 December 2001	(100.9)
Profit for the year	35.3
Other movements, net	(3.6)
Balance, 31 December 2002	(69.2)

As a result of the profit for the year of €35.3 million and currency translation and other adjustments of €3.6 million, shareholders' funds increased by €31.7 million since those reported at 31 December 2001. 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 2002.

Future Developments
The Directors intend to develop the Group's activities by focusing on its core Airline business.

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, and the European Central Representative Council were also active during the year. As indicated below seven employees served on the Board during the year under the provisions of the Acts.

Employee Health and Safety
All trading subsidiaries have produced and implemented corporate safety statements 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*	Dermot Rafferty*
Ivor Fitzpatrick	Desmond Richardson
Rose Hynes	Mick Sweeney*
John Keane	Chris Wall
Joan Loughnane*	Willie Walsh
Dan Loughrey	Patrick Wright

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

The terms of office of Rose Hynes, Desmond Richardson and Patrick Wright ended on 28 April 2002, 12 November 2002 and 9 December 2002 respectively. Ivor Fitzpatrick was appointed to the Board on 5 June 2002. Following the Worker Director elections in 2002, Mick Sweeney, Joan Loughnane and Dermot Rafferty retired from the Board on 29 June 2002, 30 June 2002 and 30 June 2002 respectively, and Frank Cox, Sean Murphy and Nora O'Reilly were appointed to the Board on 1 July 2002.

Directors' and Secretary's Shareholdings and Other Interests
The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2002 in the share capital of the Company or any Group undertaking at 01 January 2002 and 31 December 2002 were:

	Aer Lingus Group plc Shares of €1.25 each	
	31 December 2002	01 January 2002*
Willie Clarke	3,052	3,052
Frank Cox	9,052	9,052
Dan Loughrey	3,210	3,210
Sean Murphy	1,835	1,835
Nora O'Reilly	3,052	3,052
Willie Walsh	2,410	2,410
Greg O'Sullivan (Secretary)	1,188	1,188

* at date of appointment if later.

All the above shares were held in trust under the Employee Share Participation Scheme. 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 2002.

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 and its predecessor, the Prompt Payment of Accounts Act, 1997 (collectively "the Regulations"). 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 2002 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	**J. Keane**
Chairman	Director

27 February 2003

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

We have audited the accounts on pages 16 to 39 and the accounting policies set out in the statement of accounting policies on pages 21 to 23.

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 page 14 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 Company'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 2002 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 13 to 14 is consistent with the accounts.

The net assets of the Company, as stated in the Company balance sheet on page 18, 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 2002 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
27 February 2003

(a) The maintenance and integrity of the Aer Lingus website is the responsibility of the Board; 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 & Loss Account
year ended 31 December 2002

	Notes	2002 Continuing Operations €000	2002 Discontinued Operations €000	2002 Total €000	2001 Continuing Operations €000	2001 Discontinued Operations €000	2001 Total €000
Turnover	1	**958,650**	**212,286**	**1,170,936**	1,097,196	227,904	1,325,100
Cost of Sales	1	**(692,195)**	**(201,775)**	**(893,970)**	(875,169)	(218,036)	(1,093,205)
Gross Profit		**266,455**	**10,511**	**276,966**	222,027	9,868	231,895
Other operating expenses							
- operating	1	**(202,609)**	**(1,292)**	**(203,901)**	(274,157)	(8,103)	(282,260)
- employee participation	20	**(7,511)**	**-**	**(7,511)**	-	-	-
- employee participation (exceptional)	2	**1,577**	**-**	**1,577**	-	-	-
		(208,543)	**(1,292)**	**(209,835)**	(274,157)	(8,103)	(282,260)
Operating Profit/(Loss)	1	**57,912**	**9,219**	**67,131**	(52,130)	1,765	(50,365)
Exceptional Items							
Cost of fundamental restructuring	2	**(71,239)**	**-**	**(71,239)**	(123,099)	-	(123,099)
Profit on disposal of fixed assets and investments	2	**26,970**	**-**	**26,970**	744	-	744
Profit on exit from non-core activities	2	**-**	**12,089**	**12,089**	-	6,940	6,940
Profit/(Loss) on Ordinary Activities before Interest		**13,643**	**21,308**	**34,951**	(174,485)	8,705	(165,780)
Interest receivable and similar income		**30,619**	**541**	**31,160**	38,269	1,590	39,859
Interest payable and similar charges	3	**(29,116)**	**-**	**(29,116)**	(31,151)	-	(31,151)
Profit/(Loss) on Ordinary Activities before Taxation	4	**15,146**	**21,849**	**36,995**	(167,367)	10,295	(157,072)
Taxation	7	**1,687**	**(2,949)**	**(1,262)**	17,699	42	17,741
Profit/(Loss) on Ordinary Activities after Taxation		**16,833**	**18,900**	**35,733**	(149,668)	10,337	(139,331)
Minority Interests	18	**-**	**(418)**	**(418)**	-	(592)	(592)
Profit/(Loss) for Year		**16,833**	**18,482**	**35,315**	(149,668)	9,745	(139,923)
Earnings/(Loss) per Share (cent)	8			**13.8c**			(54.7)c
Earnings/(Loss) per Share – continuing operations before exceptional items (cent)	8			**21.3c**			(15.1)c

T. Mulcahy
Chairman

J. Keane
Director

Approved by the Board of Directors on 27 February 2003

Consolidated Balance Sheet
as at 31 December 2002

	Notes	2002 €000	2001 €000
Fixed Assets			
Tangible assets	9	**614,246**	721,159
Current Assets			
Stocks	11	**1,592**	6,683
Debtors	12	**81,901**	108,473
Cash, short-term deposits and liquid resources			
Free cash	13	**367,286**	169,474
Restricted cash	13	**313,040**	457,079
		763,819	741,709
Creditors: Amounts falling due within one year	14	**(454,083)**	(488,743)
Net Current Assets		**309,736**	252,966
Total Assets less Current Liabilities		**923,982**	974,125
Creditors: Amounts falling due after more than one year	15	**(456,739)**	(456,601)
Provisions for Liabilities and Charges	16	**(211,640)**	(289,558)
Net Assets		**255,603**	227,966
Capital and Reserves			
Called-up share capital	17	**319,738**	319,738
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**(69,183)**	(100,865)
Shareholders' Funds - equity interests		**255,603**	223,921
Minority Interests	18	**-**	4,045
		255,603	227,966

T. Mulcahy
Chairman

J. Keane
Director

Approved by the Board of Directors on 27 February 2003

Company Balance Sheet
as at 31 December 2002

	Notes	2002 €000	2001 €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

J. Keane
Director

Approved by the Board of Directors on 27 February 2003

Consolidated Cash Flow Statement
year ended 31 December 2002

	Notes	2002 €000	2001 €000
Net cash inflow from Operating Activities	19A	**85,407**	42,070
Returns on Investments and Servicing of Finance	19B	**(859)**	15,955
Taxation		**3,433**	(4,824)
Capital Expenditure and Financial Investment	19B	**38,794**	(231,332)
Acquisitions and Disposals	19B	**(34,928)**	8,245
Cash inflow/(outflow) before use of liquid resources and financing		**91,847**	(169,886)
Management of Liquid Resources	19C	**(238,117)**	233,665
Financing - Increase/(decrease) in debt	19B	**116,192**	(18,720)
(Decrease)/increase in cash in year		**(30,078)**	45,059
Reconciliation of net cash flow to movement in net funds	19C		
(Decrease)/increase in cash in year		**(30,078)**	45,059
Cash flow from change in debt and lease financing		**(116,192)**	18,720
Cash inflow/(outflow) from change in liquid resources		**238,117**	(233,665)
Change in net funds resulting from cash flows		**91,847**	(169,886)
Other movements		**(2,930)**	368
Movement in net funds in year		**88,917**	(169,518)
Net funds at 01 January		**66,033**	235,551
Net funds at 31 December		**154,950**	66,033

Other Consolidated Statements

year ended 31 December 2002

	2002 €000	2001 €000
Statement of Total Recognised Gains and Losses		
Gain/(loss) for the year	**35,315**	(139,923)
Other movements, principally currency translation adjustments		
Profit and Loss account	**(3,633)**	580
Total recognised gains/(losses) for the year	**31,682**	(139,343)
Reconciliation of Movements in Shareholders' Funds		
Balance, beginning of year	**223,921**	363,264
Total recognised gains/(losses) for the year	**31,682**	(139,343)
Balance, end of year	**255,603**	223,921
Movements on Profit and Loss Account		
Balance, beginning of year	**(100,865)**	38,478
Profit/(loss) retained for year	**35,315**	(139,923)
Currency translation and other movements	**(3,633)**	580
Balance, end of year	**(69,183)**	(100,865)

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.

To facilitate comparability, certain amounts for 2001 have been re-classified to conform to the current year's presentation.

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, trade discounts and transactions between companies in the Group) from passenger and cargo operations arising in the normal course of business.

Revenues from passenger and cargo operations 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 "Passenger and Cargo sales in advance". Expired coupons 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. The deferred tax provision is discounted to reflect the time value of money.

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		
- Shorthaul aircraft	18	10
- Longhaul 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	3 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 2002

1. Turnover and Operating Profit

	2002 Continuing €000	2002 Discontinued €000	2002 Total €000	2001 Continuing €000	2001 Discontinued €000	2001 Total €000
Turnover						
Passenger and Cargo Services	**958,650**	**212,286**	**1,170,936**	1,097,196	227,904	1,325,100
Cost of Sales	**692,195**	**201,775**	**893,970**	875,169	218,036	1,093,205
Gross Profit	**266,455**	**10,511**	**276,966**	222,027	9,868	231,895
Operating Expenses						
Selling and Marketing	**126,479**	**199**	**126,678**	176,874	1,243	178,117
Administrative	**78,942**	**1,093**	**80,035**	96,430	6,860	103,290
(Profit)/Loss on exchange	**(2,812)**	**-**	**(2,812)**	853	-	853
Employee Participation	**7,511**	**-**	**7,511**	-	-	-
	210,120	**1,292**	**211,412**	274,157	8,103	282,260
Operating Profit/(Loss) before exceptional credit	**56,335**	**9,219**	**65,554**	(52,130)	1,765	(50,365)
Employee participation – exceptional (Note 2)	**1,577**	**-**	**1,577**	-	-	-
Operating Profit/(Loss) after exceptional credit	**57,912**	**9,219**	**67,131**	(52,130)	1,765	(50,365)

Segmental disclosure of turnover by source and destination, and 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

	2002 €000	2001 €000
Costs of Fundamental Restructuring		
- Employee Share Ownership Plan (a)	**(38,091)**	-
- Aircraft provisions (b)	**(33,148)**	(19,885)
- Employee severance and early retirement programme (c)	**-**	(103,214)
	(71,239)	(123,099)
Profit on Disposal of Fixed Assets and Investments (d)	**26,970**	744
Employee Participation (e)	**1,577**	-
Discontinued Operations		
Profit on Exit from Non-Core Activities		
- Trading subsidiaries (f)	**4,712**	-
- Maintenance (g)	**2,956**	6,940
- Other (h)	**4,421**	-
	12,089	6,940
Net exceptional items before tax	**(30,603)**	(115,415)
Tax on exceptional items	**4,940**	11,349
Net exceptional items after tax	**(25,663)**	(104,066)

2. Exceptional Items - Continued

(a) Agreement involving the Irish Government, the employee representatives and the Group was reached on an increase in the employees' shareholding in the Group through the establishment of an Employee Share Ownership Plan ("ESOP"). The combined shareholding held on behalf of participants by the ESOP and the existing Employee Share Participation Scheme will be 14.9% of the issued share capital of Aer Lingus Group plc. The shares to be issued to the ESOP (30,472,725 shares) are expected to be issued in 2003 and provision has been made for the nominal value of these shares.

(b) Provisions have been made in 2002 and 2001 in respect of the return of aircraft to lessors as part of the rationalisation of the Airline's fleet, the non-delivery of aircraft previously ordered and the write off of aircraft related assets.

(c) In November 2001, the Airline announced a voluntary severance and early retirement programme which was an integral part of the Airline's Survival Plan. Provision was made for the estimated cost of the programme, including severance payments, pension contributions, a write-off of deferred pilot training costs and other costs associated with the severance programme.

(d) During 2002 the Airline disposed of surplus aircraft, property and other assets.

(e) Following discussions in 1999 on the establishment of an ESOP and the utilisation of the remaining balance on the existing Employee Share Participation Scheme to partially fund the ESOP, the amount remaining to be allocated under the existing Scheme was charged as an exceptional item in the 1999 accounts. The ESOP which is now being put in place (see (a) above) does not involve the utilisation of the amount remaining to be allocated under the existing Scheme (€1,577,000), and accordingly this provision is now being released.

(f) During 2002 the Group disposed of its entire shareholdings in its revenue accounting subsidiary, Aviation Services (Ireland) Limited and its reservations systems subsidiary Timas Limited (trading as Galileo Ireland). It also disposed of its entire shareholding in its charter subsidiary, Compania Hispano Irlandesa de Aviacion SA (trading as Futura) to a newly established holding company, Charter Holdings Inversiones SL, in which the Group has retained a 20% interest.

(g) The amounts in 2002 and 2001 relate to debts recovered which were written off in prior years.

(h) This amount represents a provision created in prior years in relation to former subsidiaries.

3. Interest Payable and Similar Charges

	2002 €000	2001 €000
On bank loans, overdrafts and other loans:		
- repayable within five years, by instalments	**3,562**	2,850
Finance lease interest	**21,136**	24,667
Interest on irredeemable capital	**254**	254
Other interest	**1,434**	345
Finance charge on discounted provision	**2,730**	3,035
	29,116	31,151

4. Profit/(Loss) on Ordinary Activities before Taxation

	2002 €000	2001 €000
Profit/(Loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets *		
- owned	**48,253**	66,039
- held under finance leases	**19,140**	23,681
Operating lease rentals payable		
- plant and machinery	**959**	463
- aircraft	**88,309**	120,781
- property	**10,589**	11,242
Operating lease rentals receivable	**-**	(2,858)
Auditors' remuneration	**143**	207
Payment received from Irish Government as compensation for losses suffered due to closure of US airspace following events of 11 September 2001	**-**	(6,667)

* including €1.0 million (2001: €7.1 million) of accelerated depreciation charged to exceptional items.

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 2002 amounted to €nil (2001 : €nil).

5. Directors' Emoluments

	2002 €000	2001 €000
Fees	**-**	129
Other emoluments (including pension contributions)	**746**	1,027
Pension payments to former director	**90**	89
Payment to former chief executive on termination of his contract of employment	**-**	656
	836	1,901

The annual remuneration of Mr W Walsh as Chief Executive of Aer Lingus Group plc as at 31 December 2002, is as follows:

		€000
Fees		**-**
Basic salary		**254**
Performance related payments made in 2002		**-**
Superannuation:	standard company benefits	**16**
	additional benefits provided to the chief executive	**47**
Other benefits		**44**
Total annual cost		**361**

6. Staff Costs

The average number of persons employed by the Group in the financial year was 5,245 (2001: 6,833) and their associated payroll costs were as follows:

	2002 €000	2001 €000
Wages and salaries	**204,661**	266,524
Social welfare costs	**23,384**	31,906
Pension costs (Note 21)	**14,637**	15,601
	242,682	314,031
Employee Profit Share Scheme (Note 20)	**7,511**	-
	250,193	314,031

7. Taxation

The tax charge for the year comprises:

	2002 €000	2001 €000
Current tax		
Ireland		
Corporation tax	**568**	-
Revision of previous years' provisions	**(3,797)**	(2,000)
Overseas		
Corporation tax	**2,554**	189
Revision of previous years' provisions	**(2,034)**	(539)
Total current tax	**(2,709)**	(2,350)
Deferred tax		
Origination and reversal of timing differences	**5,529**	(20,829)
Effect of discount	**(1,558)**	5,438
Total deferred tax	**3,971**	(15,391)
	1,262	(17,741)

The differences between profit on ordinary activities multiplied by the standard Irish corporation tax rate of 16% (2001: 20%) and the current tax charge for the year are:

	2002 €000	2001 €000
Profit/(loss) on ordinary activities before tax multiplied by standard Irish corporation tax rate of 16% (2001: 20%)	**5,919**	(31,414)
Effects of:		
Expenses not deductible for tax purposes	**126**	192
Capital allowances in excess of depreciation	**(6,005)**	(3,800)
Movement in tax losses	**3,713**	17,080
Movement in provisions	**(844)**	16,676
Differences in tax rates	**213**	1,455
Revision of previous years' provisions	**(5,831)**	(2,539)
Current tax charge for year	**(2,709)**	(2,350)

8. Earnings/(Loss) per share

	2002	2001
Weighted average number of shares in issue ('000)	**255,790**	255,790
Profit/(Loss) for the year (€000)	**35,315**	(139,923)
Earnings/(Loss) per share (cent)	**13.8c**	(54.7)c
Profit/(Loss) for the year from continuing operations before exceptional items (€000)	**54,585**	(38,662)
Earnings/(Loss) per share – continuing operations before exceptional items (cent)	**21.3c**	(15.1)c

9. Tangible Assets

	Flight Equipment €000	Property Freehold/ Leasehold €000	Ground Equipment €000	Other Equipment €000	Total €000
Cost					
Beginning of year	974,886	53,512	59,495	72,375	1,160,268
Additions	12,829	62	560	4,994	18,445
Disposals	(81,063)	(12,152)	(1,001)	(4,987)	(99,203)
End of year	906,652	41,422	59,054	72,382	1,079,510
Depreciation					
Beginning of year	323,352	30,535	35,438	49,784	439,109
Transferred from aircraft maintenance provisions (note 16b)	10,568	-	-	-	10,568
Charge for year	52,563	4,125	3,507	7,198	67,393
Disposals	(36,736)	(10,449)	(781)	(3,840)	(51,806)
End of year	349,747	24,211	38,164	53,142	465,264
Net Book Value					
End of year	556,905	17,211	20,890	19,240	614,246
Beginning of year	651,534	22,977	24,057	22,591	721,159
Leased assets included in the above:					
Net book value - end of year	426,242	-	-	-	426,242
Net book value - beginning of year	371,123	-	-	-	371,123

10. Financial Assets

Company	Shares in subsidiary undertakings €000
Cost	
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 its principal activity is air transportation, while 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

	2002 €000	2001 €000
Consumable aircraft spares	**-**	3,143
Other stocks	**1,592**	3,540
	1,592	6,683

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

12. Debtors

	2002 €000	2001 €000
Amounts falling due within one year:		
Trade debtors	**47,232**	60,596
Other debtors	**23,756**	37,831
Prepayments and accrued income	**6,003**	8,442
Value Added Tax	**1,160**	1,604
	78,151	108,473
Amounts falling due after more than one year:		
Other debtors	**3,750**	-
	81,901	108,473

13. Cash, short-term deposits and liquid resources

	2002 €000	2001 €000
Free cash:		
Cash and demand deposit balances	**3,721**	36,150
Other deposit balances and liquid resources	**363,565**	133,324
	367,286	169,474
Restricted cash:		
Restricted cash deposit balances held to repay certain finance lease obligations (a)	**297,714**	408,617
Other restricted deposits (b)	**15,326**	48,462
	313,040	457,079
	680,326	626,553

(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

	2002 €000	2001 €000
Bank loans and overdrafts (Note 15)	**34,189**	15,450
Finance lease obligations (Note 15)	**34,448**	88,469
Trade creditors	**29,085**	51,192
Accruals and deferred income	**116,695**	140,702
Passenger and Cargo sales in advance	**131,062**	130,513
Taxation and Social Welfare (a)	**15,108**	17,384
Employee Share Ownership Plan (Note 20)	**38,091**	-
Other creditors	**55,405**	45,033
	454,083	488,743

(a) Taxation and Social Welfare creditors include:

	2002 €000	2001 €000
PAYE	**3,370**	3,303
Social Welfare	**2,303**	2,828
Overseas taxation	**9,435**	11,253
	15,108	17,384

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

		2002 €000	2001 €000
Loan capital			
Repayable	- within one year (Note 14)	**34,189**	15,450
	- from one to two years	**8,710**	8,721
	- from two to five years	**19,587**	29,960
Irredeemable capital (a)		**6,349**	6,349
		68,835	60,480
Included in Creditors falling due within one year (Note 14)		**(34,189)**	(15,450)
		34,646	45,030
Finance lease obligations			
Repayable	- within one year (Note 14)	**34,448**	88,469
	- from one to two years	**35,360**	32,495
	- from two to five years	**186,971**	142,894
	- after five years	**199,762**	236,182
		456,541	500,040
Included in Creditors falling due within one year (Note 14)		**(34,448)**	(88,469)
		422,093	411,571
		456,739	456,601

(a) This loan, which is not repayable in the event of a winding up, was advanced by the principal shareholder (Note 23). Interest is payable thereon, as determined by the Minister for Finance from time to time, and the current rate is 4% per annum (2001 - 4% per annum).

(b) Loan capital and lease obligations of €513 million (2001 - €546m) are secured on various assets of the Group, principally aircraft.

(c) Loan capital and lease obligations of €330 million (2001 - €316m) at 31 December 2002 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	Aircraft Operating Lease Equalisation €000	Post Employment Benefits (d) €000	Other (e) €000	Total €000
Beginning of year	111,313	69,453	49,571	1,753	2,969	24,977	29,522	289,558
Provided during year	37,225	32,517	-	3,971	14,563	(1,236)	(4,990)	82,050
Finance charge on discounted provision	-	-	2,730	-	-	-	-	2,730
Disposals	-	(6,630)	-	(674)	-	-	(853)	(8,157)
Utilised during year	(82,831)	(26,761)	(8,723)	-	(15,694)	-	(1,412)	(135,421)
Transfers to fixed assets	-	(10,568)	-	-	-	-	-	(10,568)
Translation adjustment	(90)	(7,602)	-	-	(206)	(511)	(143)	(8,552)
End of year	65,617	50,409	43,578	5,050	1,632	23,230	22,124	211,640

(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, the related maintenance provisions are transferred to fixed assets.

(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 six years.

(d) Post Employment Benefits

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

(e) Other

Other provisions relate mainly to expected costs of terminating financing arrangements in relation to aircraft sold in 1994 and frequent flyer provisions.

The deferred tax provision comprises:	**2002 €000**	2001 €000
Accelerated capital allowances	**44,691**	41,472
Tax losses carried forward	**(20,875)**	(18,891)
Provisions	**(15,449)**	(19,069)
Undiscounted provision for deferred tax	**8,367**	3,512
Discount	**(3,317)**	(1,759)
Discounted provision for deferred tax	**5,050**	1,753
Provision at beginning of year	**1,753**	17,144
Deferred tax charge/(credit) in profit and loss account for year	**3,971**	(15,391)
Disposal of subsidiary	**(674)**	-
Provision at end of year	**5,050**	1,753

17. Called-Up Share Capital

	2002 €000	2001 €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

18. Minority Interests

	2002 €000	2001 €000
Beginning of year	**4,045**	3,516
Share of retained profit for year	**418**	592
Other movements	**-**	(63)
Disposal of subsidiaries	**(4,463)**	-
End of year	**-**	4,045

19. Consolidated Cash Flow Statement

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

	2002 €000	2001 €000
Operating profit/(loss) before exceptional items	**65,554**	(50,365)
Loss on disposal of fixed assets	**2,945**	-
Depreciation of tangible fixed assets	**66,409**	82,619
Movement in provisions	**(15,125)**	(2,253)
Decrease in stocks	**1,259**	799
Decrease/(increase) in debtors	**23,472**	(1,581)
Increase in creditors	**15,054**	8,869
Loss on exchange	**8,670**	5,148
IPO and strategic alliance expenditure	**-**	(1,166)
Net Cash Inflow from Operating Activities before Restructuring Payments	**168,238**	42,070
Restructuring Payments	**(82,831)**	-
Net Cash Inflow from Operating Activities	**85,407**	42,070

19. Consolidated Cash Flow Statement - Continued

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

	2002 €000	2001 €000
Returns on investments and servicing of finance		
Interest received	**31,438**	43,517
Interest paid	**(11,003)**	(2,427)
Finance lease interest paid	**(21,294)**	(25,135)
Net cash (outflow)/inflow for returns on investments and servicing of finance	**(859)**	15,955
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(20,150)**	(231,108)
Purchase of financial fixed assets	**(1,022)**	(288)
Sale of financial fixed assets	**592**	-
Sale of tangible fixed assets	**59,374**	64
Net cash inflow/(outflow) for capital expenditure and financial investment	**38,794**	(231,332)
Acquisitions and disposals		
Acquisition of interest in subsidiary undertaking	**(9,922)**	-
Sale of interests in subsidiary undertakings	**(25,006)**	8,245
Net cash (outflow)/inflow from acquisitions and disposals	**(34,928)**	8,245
Financing		
Capital element of finance leases	**(68,002)**	(14,808)
Inception of finance leases	**68,160**	-
New loan capital	**20,208**	3,936
Repayment of loan capital	**(8,111)**	(1,492)
Decrease/(increase) in restricted deposits	**103,937**	(6,356)
Net cash inflow/(outflow) from financing	**116,192**	(18,720)

19. Consolidated Cash Flow Statement - Continued

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 02 €000	Cash Flow €000	Exchange Movement €000	Net Funds (Debt) 31 Dec 02 €000
CASH				
Cash in hand, at bank	36,150	(31,529)	(900)	3,721
Overdrafts	(7,513)	1,451	18	(6,044)
	28,637	(30,078)	(882)	(2,323)
FINANCE				
Debt due within one year	(7,937)	(20,208)	-	(28,145)
Debt due after one year	(45,030)	8,111	2,273	(34,646)
Finance leases	(500,040)	(158)	43,657	(456,541)
Restricted deposits	457,079	(103,937)	(40,102)	313,040
	(95,928)	(116,192)	5,828	(206,292)
LIQUID RESOURCES				
Other cash deposits and liquid resources	133,324	238,117	(7,876)	363,565
TOTAL	66,033	91,847	(2,930)	154,950

D. Sale of interests in subsidiary undertakings

	€000
Net liabilities disposed of	(24,435)
Gain on disposal	6,199
	(18,236)
Satisfied by:	
Cash (net of cash balances foregone)	(25,006)
Loan notes	6,770
	(18,236)

20. Employee Participation

Employee Share Participation Scheme

An Employee Share Participation Scheme (the "Scheme") was established by a Trust Deed executed on 13 March 1996 which provided that employees satisfying certain service criteria were entitled to share equally in a maximum of 10% of the Group's profit before tax and exceptional items, subject to half of the profit share being taken in the form of shares in Aer Lingus Group plc and the remainder being taken in either cash or further shares. When 5% of the issued share capital of Aer Lingus Group plc as at 31 December 1995 was issued under the Scheme (12,180,503 shares), no more shares could be issued to employees and the profit share thereafter could not exceed 5% of the Group's profit before tax and exceptional items. When €15.5 million had been paid out in respect of the cash element of the profit share, entitlement to participate in any further cash payment of the profit share would cease.

The maximum permitted number of shares in Aer Lingus Group plc (12,180,503 shares) was issued to the Trustees of the Scheme for appropriation to employees and at 31 December 2001 €1,577,000 remained to be allocated in the form of cash. As 5% of the Group's profit before tax and exceptional items for 2002 exceeds €1,577,000, this amount will be paid in cash to participants.

Employee Share Ownership Plan ("ESOP")

As part of the Airline's Survival Plan, agreement involving the Irish Government, the employee representatives and the Group was reached on the establishment of an ESOP and a new profit sharing scheme. 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") which will be 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 will be 14.9% of the issued share capital of Aer Lingus Group plc. The total number of shares to be issued under the ESOP is 30,472,725 with a nominal value of €38.1 million.

Profit Sharing Scheme

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 Airline's 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. For the year ended 31 December 2002, the total of the amounts due under the new profit sharing scheme and under the existing Employee Share Participation Scheme cannot exceed 10% of the Group profit before tax and exceptional items for that year. The profit sharing charge for the year of €7,511,000 included in the profit and loss account for 2002 is determined as follows:

	€000
Gross profit	276,966
Operating expenses	(203,901)
Interest receivable and similar income	31,160
Interest payable and similar charges	(29,116)
	75,109

Profit share - 10%	7,511
Less: amount payable to participants of Employee Share Participation Scheme	(1,577)
Payable to ESOT	5,934

The Group will make a loan of up to €15.2 million available to the ESOT if required, 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.

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 €14.6 million (2001 - €15.6m), 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 2002 the Group had capital commitments as follows:

	2002 €000	2001 €000
Contracted for but not provided		
- Aircraft and equipment	120,453*	206,878
- Other	1,797	968
Authorised but not contracted for	21,313	17,208
	143,563	225,054

* of this amount, €100.5 million is payable in 2005.

(b) Lease commitments

At 31 December 2002 the Group had annual commitments under operating leases as set out below:

	Property €000	Aircraft €000	Plant and Machinery €000
Operating leases which expire:			
- Within one year	1,660	2,815	15
- Between two and five years	2,387	51,210	829
- After five years	3,113	-	-
	7,160	54,025	844

(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 2002 are forward purchases of US Dollars $174 million and Sterling £20 million (2001: US Dollars $236m and Sterling £30m) and forward sales of Sterling £41 million (2001: Sterling £114m).

23. Related Party Transactions

(a) Ownership of the Company

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.

(b) Purchase of services from entities owned by the Irish Government

In the ordinary course of its business the Group purchases services from entities controlled by the Irish Government (including Aer Rianta, Irish Aviation Authority and ESB). Purchases of services from these entities during the year were less than 6% of Group operating costs.

Notes