Aer Lingus

ANNUAL REPORT & CONSOLIDATED ACCOUNTS 2000

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financial
HIGHLIGHTS

1999 IR£m	2000 IR£m		2000 €m	1999 €m
893.3	**1,080.9**	**Turnover** - Continuing	**1,372.5**	1,134.2
31.8	**-**	- Discontinued	**-**	40.5
925.1	**1,080.9**		**1,372.5**	1,174.7
167.5	**201.8**	**Earnings before interest, tax, depreciation, amortisation and aircraft rentals (EBITDAR) - continuing**	**256.1**	212.7
(76.7)	**(98.7)**	Aircraft rentals	**(125.3)**	(97.4)
(34.4)	**(40.1)**	Depreciation and amortisation	**(50.9)**	(43.7)
		Operating Profit		
56.4	**63.0**	Continuing operations	**79.9**	71.6
2.0	**-**	Discontinued operations	**-**	2.6
58.4	**63.0**	Profit before interest & exceptional items	**79.9**	74.2
(0.6)	**6.6**	Interest (net)	**8.4**	(0.8)
57.8	**69.6**	**Profit before employee share participation scheme & exceptional items**	**88.3**	73.4
(2.0)	**(3.5)**	Employee share participation scheme	**(4.4)**	(2.6)
55.8	**66.1**	**Profit before exceptional items**	**83.9**	70.8
(8.9)	**4.1**	Exceptional items	**5.2**	(11.3)
46.9	**70.2**	**Profit before taxation**	**89.1**	59.5
(3.2)	**(13.8)**	Taxation & minority interests	**(17.5)**	(4.1)
43.7	**56.4**	**Profit for the year**	**71.6**	55.4
103.1	**103.4**	**Capital Employed**	**131.2**	131.0
		Financed by		
228.4	**286.1**	**Shareholders' funds**	**363.3**	290.0
2.5	**2.8**	**Minority Interests**	**3.5**	3.2
(127.8)	**(185.5)**	**Net cash & liquid resources**	**(235.6)**	(162.2)
103.1	**103.4**		**131.2**	131.0

chairman's
STATEMENT

Review of the year
I am pleased to report a strong performance by the Aer Lingus Group in 2000 with Group operating profits on continuing activities up 11.6% to €79.9 million on a Group turnover of €1,372.5 million, an increase of 21% on the previous year.

Strong positive cash flows are reflected in net interest received of €8.4 million and net cash and liquid resources at 31 December 2000 of €235.6 million. The allocation of profits to staff through the Employee Share Participation Scheme was €4.4 million and, after a net gain of €5.2 million on exceptional items and a taxation and minority interests charge of €17.5 million, the net profit for the year was €71.6 million compared to €55.4 million in 1999. Shareholders' funds grew from €290.0 million in 1999 to €363.3 million in 2000.

There were record passenger carryings in the airline of close to 7 million, up 5.9% on the previous year. While capacity was increased by 13.2%, the strong demand for our services, particularly on the transatlantic, was reflected in a further growth of two percentage points in the passenger load factor to 76%.

The revenue growth was achieved by increasing frequencies on existing routes and by opening new routes to Baltimore/Washington, London Gatwick, Munich and Stockholm. The successful implementation of the **one**world strategic alliance, especially the code-share agreements with American Airlines and British Airways and the buoyancy in our main markets during 2000 were major factors in our strong performance.

The Group operating margin at 5.8% shows a reduction from the 6.3% achieved in 1999. This reflects a decline in performance by our Spanish based charter airline, Futura. This was mainly due to the adverse impact of increased fuel and other US dollar denominated costs which could not be fully recovered due to the intensely competitive nature of the airline charter business.

Industry environment
During 2000, while the air transport industry remained intensely competitive, there was strong growth due mainly to the economic buoyancy in the major world markets. The rapid rise in fuel prices, the intensifying of efforts to reduce distribution costs and the increase in congestion on the ground and in the air presented major challenges for the industry. In Aer Lingus, a combination of a prudent hedging policy and some selective price increases helped us to contain the impact of the increase in fuel costs during the year.

By the end of the first quarter in 2001 the softening economies in a number of markets, particularly the United States, were causing a serious downward revision of profit forecasts in the international aviation industry.

The Association of European Airlines (AEA) published figures which showed that passenger numbers for April were down on the previous year – the first such decline for ten years. This included a reduction of over 4% on the North Atlantic. The British Airports Authority statistics for May 2001 also show a decline on the previous year with inbound traffic from the United States showing a reduction of 10.5% and a drop of 5.8% on traffic between Ireland and Britain. Analysts are predicting that the US airline industry will post full-year net losses for 2001.

This sudden reversal in the fortunes of the air transport industry is taking place in the context of a serious decline in the major world economies. A leader in the June 23rd 2001 edition of *The Economist* quotes Moody's as estimating that, "in the three months ending May, the total industrial output of America, the EU and Japan fell by 0.5% on a year earlier, compared with annual growth of more than 6% the previous year. This is the sharpest-ever dive for industrial growth rates within a 12-month span."

In the early months of 2001 the impact on the booking season of the timing of the Foot and Mouth outbreak and the uncertainty caused by industrial action at that time led to a deterioration in the trading position of the airline. This has since been exacerbated by the international economic downturn and the Group now looks likely to report a loss for the current year.

Reducing distribution costs

We have begun the implementation in the past year of a major strategy designed to reduce the cost of distributing our services to both the travel trade and the retail consumer and to improve the quality of accessibility to our products. There are a number of aspects to this strategy including the overhaul of our telesales operation, the restructuring of our commissions system with the travel trade to ensure it is more cost efficient and provides an incentive for the trade to grow their business and the introduction of an online booking engine to improve access for our customers and to grow the customer base.

Tackling the problems of congestion

The scale of growth in the air transport industry in recent years has led to an increasing strain on the infrastructure on the ground and in the air. For Aer Lingus, whose main differentiator from our competitors is the quality of our customer service, this is an issue of particular concern. During the past year we have reached agreement with the airport authority at our main home base in Dublin which will minimise the disruption to our customers while allowing the continuing development of Dublin Airport to cater for the rapidly growing passenger numbers.

Congestion in the air, which is mainly attributable to the inefficient management of the airspace in continental Europe, has led to a deterioration in punctuality over recent years. Punctuality has always been a high priority for Aer Lingus and we have implemented a number of measures over the past year to ensure we remain among the most punctual airlines in Europe. The long-term solution to this problem is the reform of the European air traffic control systems and we are working with other European airlines to convince the appropriate authorities of the urgency of this problem.

BOARD OF DIRECTORS





Aer Lingus people

The quality of our service, which sets us apart from our competitors, is provided first and foremost through our people. To provide the quality of service to our customers to which we are committed it is vital that our people feel valued and fully motivated.

During 2000 we had a number of industrial relations difficulties which centred on a series of pay claims presented by different categories of staff. On a number of occasions these difficulties spilled over into industrial action which seriously disrupted our customers. The damage to customer confidence caused by these disruptions takes a considerable time to recover. We deeply regret any inconvenience that was caused to our customers as we sought to reach a resolution of these issues.

Our priority on pay issues is to remunerate our people in a way that recognises the excellence of the service they provide while also managing our costs in a way that allows the business to invest in future growth and to provide shareholder value. I trust the remaining negotiations will be concluded to the same end and that they are completed without any further disruption to our customers.

oneworld

During 2000 we implemented the various steps leading to full participation in the **one**world alliance. This included code-sharing agreements with American Airlines and British Airways, frequent flyer reciprocity programmes with our partners in the alliance and participation in a major global marketing campaign to publicise our admission to **one**world. Initial indications suggest that our commercial expectations from membership of the **one**world alliance will be exceeded.

Bernie Cahill
Chairman

Mr Cahill has been Chairman since August 1991 and was Executive Chairman for over two years within that period. He was re-appointed Chairman in June 1999. He is Chairman of Irish Food Processors Limited.

Willie Clarke

Mr Clarke was appointed to the Board in May 1998 as an elected Director in May 1998. He is an Operative in the Dublin Cargo Terminal.

Rose Hynes

Ms Hynes was appointed to the Board in April 1997. She is an Executive Vice-President and Head of the Commercial Department of debis AirFinance B.V. and is a Director of AerCo Limited.

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 is elected by the medical profession to the Midland Health Board where he is member of the Finance Committee. He is a member of the Heritage Council, Waterways Committee, where he was directly engaged in the preparation of the strategic plan on the future of the Waterways.

Joan Loughnane

Ms Loughnane was appointed to the Board as an elected Director in May 1998. She is a member of Aer Lingus cabin crew and was Chairperson of the Cabin Crew Committee from May 1996 to April 1998.

Privatisation

In December 1999 the Government made a commitment to the privatisation of Aer Lingus. This was initially to be in the form of an IPO and, during 2000, good progress was achieved in the preparations necessary to have a public flotation of shares in Aer Lingus. The legislation passed all stages in the Seanad. Discussions took place with staff representatives on the structure of an Employee Share Ownership Plan (ESOP) which would be part of the IPO.

Given the deterioration in market conditions and the delay in the implementation of the IPO, the Government has now asked its advisers to look at alternative sale options for the airline. The access to capital afforded by privatisation will allow the Aer Lingus Group to grow and develop the business into the future.

Outlook

The sudden and rapid decline in the performance of many of the world's major economies will have a severe impact on the profitability of many airlines in the full service sector of the industry in 2001. Several major airlines, many of whom like Aer Lingus have experienced a number of years of profitable growth, have issued profits warnings.

In Aer Lingus we have a sound business strategy that has delivered a sustained period of profitable growth. This has been maintained by a clear focus on providing a high quality differentiated service to a discerning customer base.

It is vital that, as we enter this downturn in the aviation industry cycle, we keep a firm focus on the fundamentals of customer service that will enable us to maintain our market share.

Unfortunately, the current downturn is coinciding with a significant increase in our cost base due to the recent pay settlements, higher fuel costs and the strength of the US dollar. With revenues and yields under pressure it is imperative that we reduce our costs.

John O'Donovan

Mr O'Donovan, a Chartered Accountant, was formerly Finance Director of Carberry Milk Products. He has been Group Finance Director with Aer Lingus since February 1995 and was appointed to the Board in July 2000. In June 2001, he assumed the role of Group Chief Executive.

Dermot Rafferty

Captain Rafferty was appointed to the Board as an elected Director in February 2000. He is an Airbus A330 Captain.

Desmond J Richardson

Mr Richardson was appointed to the Board in November 1997. He is an Executive Director of the Marlbourough Group.

Mick Sweeney

Mr Sweeney was appointed to the Board as an elected Director in January 1999. He is a clerical worker at Aer Lingus' Head Office. He is employed in the Network Management Department, where he is a Senior Schedules Analyst

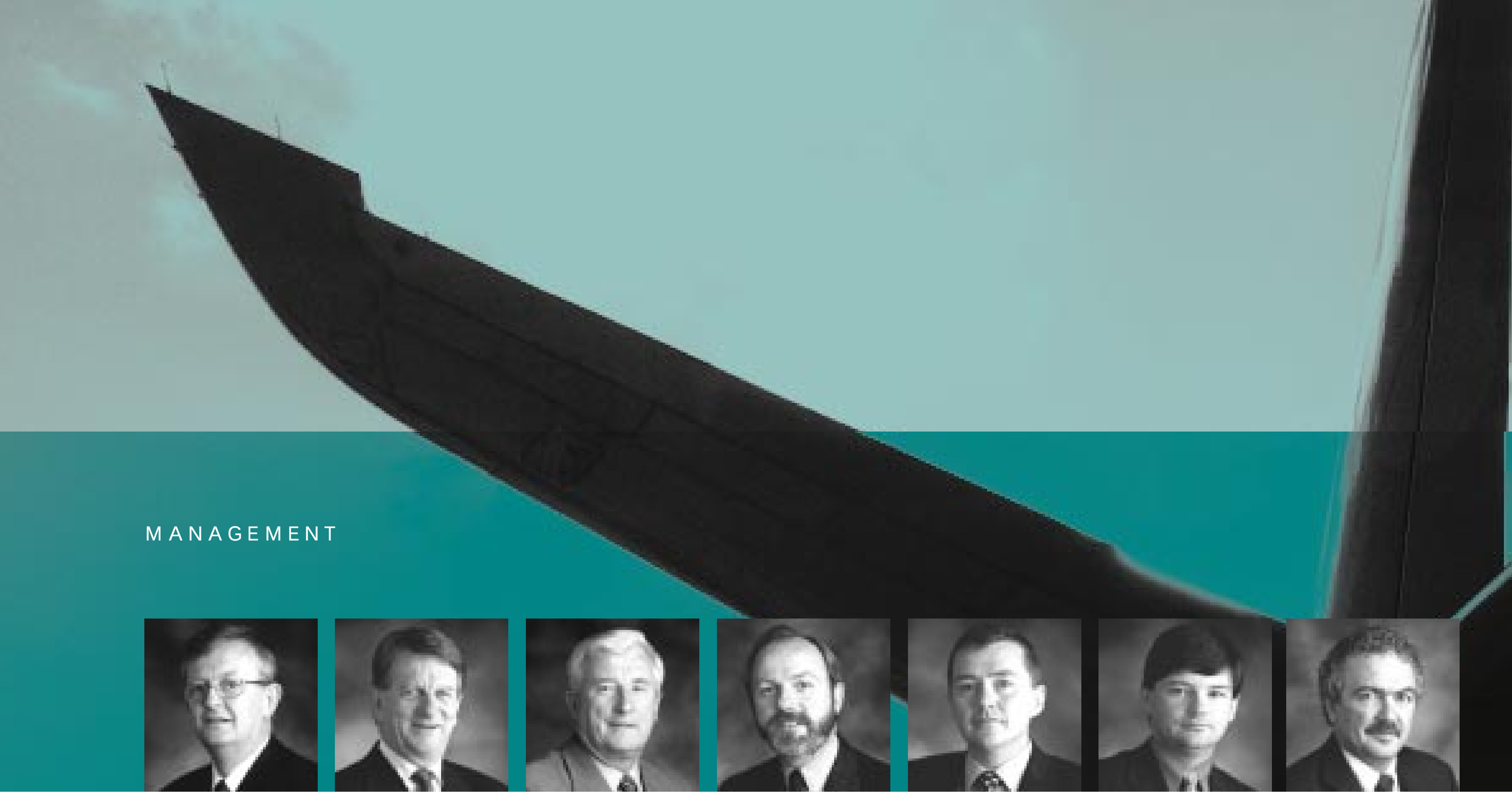
Chris Wall

Mr 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.

Patrick Wright

Mr Wright was appointed to the Board in December 1992. He is Chairman of the RTE Authority and Chairman of Aon Insurance Brokers. He is also a Director of the Jefferson Smurfit Group and Anglo Irish Bank.

MANAGEMENT



We have a strong brand and a competitive product and the Board and management will continue to implement the measures necessary to enable Aer Lingus to withstand the worst ravages of the current economic downturn and to place it in a position to benefit from the economic revival when it occurs.

Acknowledgements
I would like to thank the members of the Board for their unstinting commitment in what was a very active year in the development of the Group. I would also like to express my thanks to the Minister for Public Enterprise, Mary O'Rourke, T.D., and to the officials of the Departments of Public Enterprise and Finance who provided much valued support during the past year.

Finally, I would like to thank our customers for their support in such numbers during 2000 and particularly for their forbearance when our service was disrupted. I would also like to take this opportunity of recommitting everybody in Aer Lingus to the principle that drives our business – a total dedication to providing the customers' needs at every step of the relationship.

Bernie Cahill
Chairman

29 June 2001

John O'Donovan
Group Chief Executive

Larry Stanley
Alliance and Strategy Director

Hugh O'Brien
Human Resources Director

Dan Loughrey
Group Corporate Affairs Director

William Walsh
Chief Operating Officer

Mark Mortell
Commercial Director

Niall Walsh
Services Director

OPERATING AND FINANCIAL review

Summary

Group operating profit (before Employee Share Participation Scheme and Exceptional items) was €79.9 million (€74.2 m in 1999), an increase of 7.7%. Group operating profit on continuing operations, before Employee Share Participation Scheme and Exceptional items, was up 11.6% to €79.9 million (€71.6 m in 1999).

Strong positive cash flows are represented by net cash and liquid resources at 31 December 2000 of €235.6 million.

Shareholders' funds rose to €363.3 million (€290.0 m in 1999).

Operating Review:

Key business issues

The operating results of the business were positively influenced by increases in capacity of over 13%, new route developments on European and Transatlantic networks and continued investment in the brand.

In Europe, new routes were inaugurated in 2000 between Ireland and London Gatwick, Stockholm and Munich. On the transatlantic, a new scheduled service linking Ireland with Baltimore/Washington International was commenced in September 2000.

This route development was facilitated by the acquisition of two new aircraft, an Airbus A330-200 for transatlantic operations and an Airbus A320 for shorthaul services

Aer Lingus carried a record 6.9 million passengers, an increase of 5.9%. This increase was reflected in Business and Economy class traffic with growth of 15% and 3% respectively over 1999.

While the economic climate in the major markets in which Aer Lingus operates was largely positive, the operating environment was dominated by continuing difficulties associated with congestion, both on the ground and in the air and significant fuel cost increases.

The continuing rises in fuel costs throughout 2000 impacted the business significantly. Average market prices per tonne rose to $294 during 2000, an increase of 62% on 1999 market prices of $181.

Congestion issues, mainly caused by airport infrastructure and the problems associated with airspace management in Europe, led to a disimprovement in punctuality performance and increased costs associated with aircraft delays

During late 2000 a number of industrial relations issues resulted in a disrupted schedule and serious inconvenience for our customers. To date in 2001, pay settlements have been reached with Cabin Crew, Clerical and Operative groups while discussions with Pilots are ongoing.

Operating performance

The airline's major route groups showed strong profit performance in 2000. Passenger load factors increased by two percentage points to 76%.

Transatlantic traffic rose by 21% with passenger carryings rising to a record 1.1 million. This increase was facilitated by the introduction of a seventh Airbus A330, supplemented by a peak season leased MD-11 aircraft. Over 29,000 tonnes of airfreight was carried. The Baltimore/Washington service was successfully introduced and the expansion of frequencies between Ireland and the US contributed strongly to the performance of this route group. Services between Ireland and Los Angeles increased from three to seven per week; on the Chicago route services rose from seven to nine per week, and the Boston schedule expanded to include twice daily flights during the peak season period.

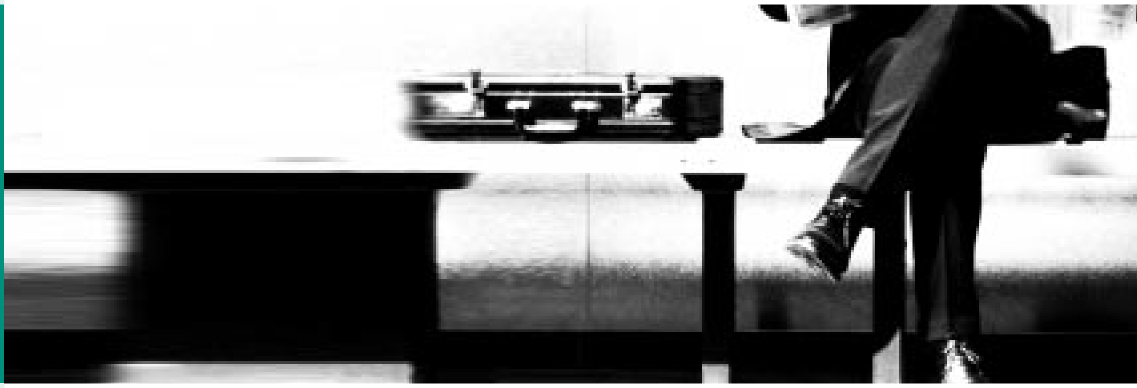
Significant product and service developments are being implemented on the Transatlantic route network during 2001 including on-board product enhancements and improved schedule timings. An aircraft enhancement programme, including new Premier seats, an expanded inflight entertainment programming schedule and seatback video availability in economy class has commenced. Delivery has also been taken of an eighth Airbus A330 aircraft.

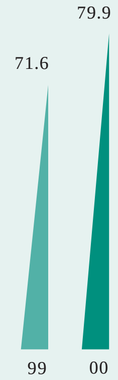
UK/London traffic performed ahead of 1999 and accounted for 3.6 million passengers (1999:3.5 m). London Gatwick was opened as a new route in January 2000 as part of a three airport strategy including London Heathrow and London City. This strategy enables the airline to serve all major market segments – business, leisure, point-to-point and interlining. Increases in the schedules on the Dublin/Glasgow route were introduced in Winter 2000.

The successful introduction of direct Aer Lingus services to Munich and Stockholm marked 2000 as a year of profitable expansion in Europe. Overall traffic was up 7.8% to 1.4 million passengers with further significant developments achieved in code-sharing arrangements with British Airways. New code-shares were agreed on key routes within Europe including Berlin, Munich, Vienna, Bologna and Nice.

Additional capacity was introduced on the Ireland/Amsterdam routes while increased frequencies were effected on the Milan service.

Brand investment was continued in 2000 with a new Gold Circle Club lounge opened in Shannon and a major re-development of the London-Heathrow lounge. Heathrow also saw the addition of a new lounge for Premier customers resulting in over 7,000 square feet of lounge space for Aer Lingus customers.





Operating Profit
on continuing operations
(€Millions)

Group Turnover
on continuing operations
(€Millions)

Reciprocal agreements with **one**world member airlines have also improved lounge availability for frequent flyers with enhanced use of our partner airlines' lounges.

In tandem with the airline's formal entry into **one**world in June 2000, intensive training and communications programmes were conducted for over 2,000 customer service front-line staff.

Futura

The Spanish based charter airline subsidiary Futura experienced difficult trading conditions in 2000. Operating a core fleet of 12 Boeing 737 aircraft, Futura, in common with other charter operators, was affected by high fuel costs and the weakness of the Euro relative to the US dollar. Despite these difficulties, Futura made a positive profit contribution to the Group albeit at a lower level than in 1999.

Cargo

Total Cargo tonnage carried on Aer Lingus services, excluding mail, increased by 11.4% to 41,000 tonnes in 2000. Export tonnage to the USA grew by 10% as a result of the strong demand in the high-tech sector, while traffic in Europe remained static. Mail revenues increased by 4% while terminal handling revenues grew by 11%.

Fleet developments

Aer Lingus operated a peak fleet of 38 aircraft in 2000.

Delivery was taken of two new aircraft in 2000 – a seventh Airbus A330 for transatlantic routes and an Airbus A320 to operate in Europe. The A320 is one of six scheduled for delivery between 2000 and 2002. Orders were also placed with Airbus for four A319 aircraft due for delivery in 2003.

In line with the airline's strategy for an all jet fleet, the Fokker 50 aircraft were retired in early 2001.

Alliances

The year saw the successful implementation of bilateral agreements with American Airlines and British Airways. In June 2000, Aer Lingus commenced the introduction of **one**world customer benefits as a full member of the global airline alliance. This key strategic imperative was achieved on time and came at an important juncture in Aer Lingus' development. To facilitate the introduction of **one**world benefits to Aer Lingus customers, bilateral agreements were also signed with Finnair, Iberia, Cathay Pacific, Qantas and Lan Chile.

Significant code-share agreements were implemented in 2000, broadening the Aer Lingus network. In addition to British Airways code-sharing on Aer Lingus flights to the UK, key continental European destinations such as Berlin, Nice and Vienna have become Aer Lingus code-share destinations.

On transatlantic routes, American Airlines code-share agreements on the Aer Lingus operated routes have contributed to increased passenger numbers and increased frequency of usage by AAdvantage programme members of Aer Lingus services.

The **one**world alliance grouping commits to providing enhanced customer benefits beyond those available on the individual airlines' networks, including a broader global network of destinations, better customer service support, ease of transfers, frequent flyer programme reciprocity and enhanced airport lounge accessibility.

To date, over 400,000 Aer Lingus customers have used **one**world connecting flights while members of the TAB frequent flyer programme have earned points on over 100,000 **one**world partner journeys.

In addition to our code-share relationships with **one**world partners American Airlines, British Airways and Finnair, 2000 also saw the continued development of our code-share agreements with KLM, Sabena and Crossair.

Financial Review:
Group turnover increased by 17% to €1,372.5 million (1999: €1,174.7m) with Group turnover from continuing operations in 2000 rising from €1,134.2 million to €1,372.5 million, an increase of 21%. Overall costs from continuing operations rose by 21.6%, resulting in the operating margin for the Group being down 0.5 percentage points to 5.8%. The operating margin for Aer Lingus was 6.4%, unchanged from 1999 levels.

Group operating profit from continuing operations, before the Employee Share Participation Scheme charge, grew by 11.6% from €71.6 million to €79.9 million.

The EBITDAR margin was 18.7%, a slight decrease on 1999 levels of 18.8%. This compares favourably with the peer group.

Capacity, as measured by Available Tonne Kilometres (ATKs), rose by 13.2% to 1,403 million. This increase was facilitated by the addition of an extra Airbus A330 on the transatlantic routes, an extra A320 on European services and additional frequencies. Output sold improved by 17.5% to 1,012 million Revenue Tonne Kilometres (RTKs) with a total load factor at 72% (1999: 70%).

Airline passenger numbers rose 5.9% to a record 6.9 million resulting in an increase in the passenger load factor of two percentage points to 76%.

Group operating profit before exceptional items and Employee Share Participation Scheme was €79.9 million (1999: €74.2m), an increase of 7.7%. Net interest income of €8.4 million was generated (1999: net interest charge incurred €0.8 m).

The Employee Share Participation Scheme charge in 2000 of €4.4 million compares with €2.6 million in 1999.

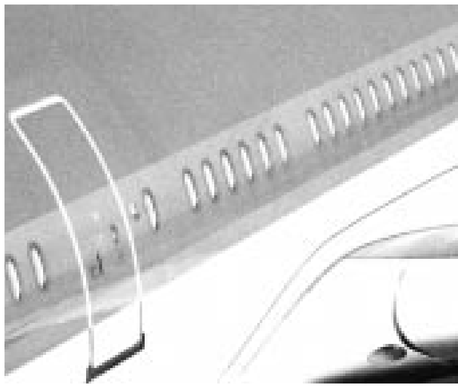
Profit before exceptional items rose by 18.5% to €83.9 million (1999: €70.8 m). Exceptional items resulted in a gain of €5.2 million (1999: net exceptional loss €11.3 m).

In 2000 the Group adopted the provisions of the new accounting standard on deferred tax, FRS19 and restated its 1999 tax charge to reflect the requirements of the new standard. The total charge for corporation and deferred tax in 2000 was €16.9 million, compared with €2.7 million in 1999, while the resulting retained profit for the year was €71.6 million in 2000 and €55.4 million in 1999.

Net cash at 31 December 2000 was €235.6 million (1999: €162.2 m) up 45% on 1999 while shareholders' funds recorded a 25.3% increase to €363.3 million.

directors'

REPORT YEAR ENDED 31 DECEMBER 2000



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 2000.

Principal Activities and Business Review

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

During the year, the Group disposed of the remaining 51% of its cargo handling subsidiary, Manchester Cargo Centre Limited.

Results for the Year and State of Affairs as at 31 December 2000

The consolidated profit and loss account for the year ended 31 December 2000 and the consolidated balance sheet at that date are set out on pages 18 and 19. The profit for the year, after net exceptional profits of €5.5 million, amounted to €71.6 million (1999 - €55.5m, after net exceptional losses of €7.4m).

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

	€ million
Balance, 31 December 1999 – as previously reported	(28.1)
Prior year adjustment	(6.7)
Balance, 31 December 1999 – as restated	(34.8)
Profit for the year	71.6
Other movements, net	1.7
Balance, 31 December 2000	38.5

As a result of the profit for the year of €71.6 million, currency translation and other adjustments of €1.7 million and a prior year adjustment of €6.7 million arising from a change in accounting policies, shareholders' funds increased by €66.6 million since those reported at 31 December 1999. 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 2000.

Future Developments

The Directors intend to continue the development of the Group's activities by focusing on core businesses, consolidating on progress achieved to date, and seeking prudent expansion in the context of growth opportunities.

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 four employees served on the Board during the year under the provisions of the Acts.

Employee Health and Safety

All trading subsidiaries in the Group 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:

Bernie Cahill (Chairman)	John O'Donovan
Willie Clarke*	Jim O'Leary
Michael Foley	Dermot Rafferty*
Máire Geoghegan-Quinn	Desmond Richardson
Rose Hynes	Mick Sweeney*
John Keane	Chris Wall
Joan Loughnane*	Patrick Wright

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

Dermot Rafferty, John O'Donovan and Michael Foley were appointed to the Board on 03 February 2000, 14 July 2000 and 11 September 2000 respectively. Jim O'Leary and Máire Geoghegan-Quinn retired from the Board on 17 January 2000 and 29 February 2000 respectively. Following the termination of Michael Foley's employment contract on 12 June 2001, he ceased to be a director on that date.

Directors' and Secretary's Shareholdings and Other Interests

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2000 in the share capital of the Company or any Group undertaking at 01 January 2000 and 31 December 2000 were:

	Aer Lingus Group plc Shares of €1.25 each	
	31 December 2000	**01 January 2000***
Willie Clarke	2,410	2,410
Joan Loughnane	2,410	2,410
John O'Donovan	1,890	1,890
Dermot Rafferty	6,410	6,410
Mick Sweeney	2,410	2,410

** at date of appointment if later.*

All the above shares were held in trust under the Employee Share 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 2000.

Save as referred to in note 5, 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

As required by Irish company law, the Directors have had prepared and are responsible for the accompanying accounts, the notes to these accounts, the choice of the accounting policies used in their preparation and the other related financial information contained in this report, which give a true and fair view of the state of affairs of the Group and of its profit, cash flows, and total recognised gains and losses for the year. The Group's accounts have been prepared in conformity with accounting standards generally accepted in Ireland and the Irish Companies Acts 1963 to 1999, applying prudent and reasonable estimates and informed judgements as required. The accounts have been prepared on the going concern basis.

The Group maintains systems of internal control which have been designed to give reasonable assurance that transactions are executed in accordance with management's authorisation, that assets are safeguarded, that fraud is prevented and that proper financial records are maintained. To assist in the effective application of the Group's internal controls, the services of qualified personnel have been secured and duties properly allocated among them.

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 accounting controls, 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.

Payment Practices
The Directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the Prompt Payment of Accounts Act, 1997 ("the Act"). 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 Act. The payment policy throughout 2000 was to comply with the requirements of the Act.

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

B.M. Cahill — Chairman

R. Hynes — Director

29 June 2001

AUDITORS' REPORT TO THE MEMBERS OF AER LINGUS GROUP PLC

YEAR ENDED 31 DECEMBER 2000

Auditors' Report to the Members of Aer Lingus Group plc
We have audited the accounts on pages 18 to 40.

Respective Responsibilities of Directors and Auditors
The Directors are responsible for preparing the Directors' Report and, as described on pages 14 and 15, for preparing the accounts in accordance with Accounting Standards generally accepted in Ireland. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and our profession's ethical guidance.

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 1999, 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.

Basis of 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 Group at 31 December 2000 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 1999 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 12 to 15 is consistent with the accounts.

The net assets of the Company, as stated in the balance sheet on page 20, 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 2000 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
29 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2000

		2000			1999 (As Restated)			
	Notes	Continuing Operations Before Exceptional Items €000	Exceptional Items €000 (Note 2)	Total €000	Continuing Operations Before Exceptional Items €000	Discontinued Operations Before Exceptional Items €000	Exceptional Items €000 (Note 2)	Total €000
Turnover	1	1,372,419	-	1,372,419	1,134,224	40,444	33,013	1,207,681
Cost of Sales	1	(970,258)	-	(970,258)	(786,754)	(37,732)	-	(824,486)
Gross Profit		402,161	-	402,161	347,470	2,712	33,013	383,195
Other operating expenses								
- operating		(322,230)	-	(322,230)	(275,848)	(129)	(2,793)	(278,770)
- employee participation	20	(4,416)	4,416	-	(2,564)	-	(5,993)	(8,557)
		(326,646)	4,416	(322,230)	(278,412)	(129)	(8,786)	(287,327)
Operating Profit	1	75,515	4,416	79,931	69,058	2,583	24,227	95,868
Exceptional Items								
(Loss)/Profit on disposal of fixed assets		-	(1,510)	(1,510)	-	-	10,779	10,779
Cost of fundamental restructuring		-	(10,991)	(10,991)	-	-	(1,415)	(1,415)
Profit/(Loss) on exit from non-core activities		-	13,267	13,267	-	-	(44,860)	(44,860)
Profit/(Loss) on Ordinary Activities before Interest		75,515	5,182	80,697	69,058	2,583	(11,269)	60,372
Interest receivable and similar income		43,001	-	43,001	26,873	-	-	26,873
Interest payable and similar charges	3	(34,600)	-	(34,600)	(27,689)	-	-	(27,689)
Profit/(Loss) on Ordinary Activities before Taxation	4	83,916	5,182	89,098	68,242	2,583	(11,269)	59,556
Taxation	7	(17,235)	364	(16,871)	(6,581)	-	3,837	(2,744)
Profit/(Loss) on Ordinary Activities after Taxation		66,681	5,546	72,227	61,661	2,583	(7,432)	56,812
Minority Interests	18	(601)	-	(601)	(1,347)	-	-	(1,347)
Profit/(Loss) for Year		66,080	5,546	71,626	60,314	2,583	(7,432)	55,465
Earnings per Share (cents)	8			28.0c				21.8c
Earnings per Share - continuing operations before exceptional items (cents)	8			25.8c				23.7c

B.M. Cahill
Chairman

R. Hynes
Director

Approved by the Board of Directors on 29 June 2001.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2000

	Notes	2000 €000	1999 As Restated €000
Fixed Assets			
Tangible assets	9	**614,240**	541,096
Financial assets	10	**922**	-
		615,162	541,096
Current Assets			
Stocks	11	**7,481**	6,651
Debtors	12	**123,284**	129,307
Cash, short term deposits and liquid resources	13	**825,254**	761,155
		956,019	897,113
Creditors: Amounts falling due within one year	14	**(520,186)**	(428,588)
Net Current Assets		**435,833**	468,525
Total Assets less Current Liabilities		**1,050,995**	1,009,621
Creditors: Amounts falling due after more than one year	15	**(457,353)**	(507,535)
Provisions for Liabilities and Charges	16	**(226,862)**	(208,953)
Net Assets		**366,780**	293,133
Capital and Reserves			
Called-up share capital	17	**319,738**	324,786
Capital conversion reserve fund	17	**5,048**	-
Profit and loss account		**38,478**	(34,820)
Shareholders' Funds - equity interests		**363,264**	289,966
Minority Interests	18	**3,516**	3,167
		366,780	293,133

B.M. Cahill
Chairman

R. Hynes
Director

Approved by the Board of Directors on 29 June 2001.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2000

	Notes	2000 €000	1999 €000
Fixed Assets			
Financial assets	10	**328,367**	328,494
Current Assets			
Debtors: Amounts due from subsidiary undertakings		**34,656**	-
Creditors: Amounts falling due within one year			
Amounts due to subsidiary undertakings		**-**	(3,708)
Net Current Assets/(Liabilities)		**34,656**	(3,708)
Net Assets		**363,023**	324,786
Capital and Reserves			
Called-up share capital	17	**319,738**	324,786
Capital conversion reserve fund	17	**5,048**	-
Profit and loss account		**38,237**	-
Shareholders' Funds - equity interests		**363,023**	324,786

B.M. Cahill
Chairman

R. Hynes
Director

Approved by the Board of Directors on 29 June 2001.

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2000

	Notes	2000 €000	1999 €000
Net cash inflow from Operating Activities	19A	**164,423**	253,721
Returns on Investments and Servicing of Finance	19B	**1,931**	107
Taxation		**(5,164)**	(4,059)
Capital Expenditure and Financial Investment	19B	**(116,013)**	(146,219)
Acquisitions and Disposals	19B	**29,502**	(23,673)
Cash inflow before use of liquid resources and financing		**74,679**	79,877
Management of Liquid Resources	19C	**(51,159)**	(59,477)
Financing - Decrease in debt	19B	**(38,210)**	(11,706)
(Decrease)/Increase in cash in year		**(14,690)**	8,694

		2000 €000	1999 €000
Reconciliation of net cash flow to movement in net funds (Note 19C)			
(Decrease)/Increase in cash in the year		**(14,690)**	8,694
Cash outflow from decrease in debt and lease financing		**38,210**	11,706
Cash inflow from increase in liquid resources		**51,159**	59,477
Change in net funds resulting from cash flows		**74,679**	79,877
Other movements		**(1,363)**	(6,297)
Movement in net funds in year		**73,316**	73,580
Net funds at 01 January		**162,235**	88,655
Net funds at 31 December		**235,551**	162,235

OTHER CONSOLIDATED STATEMENTS
YEAR ENDED 31 DECEMBER 2000

	2000 €000	1999 As Restated €000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Profit for the year	**71,626**	55,465
Other movements, principally currency translation adjustments		
Profit and Loss account	**1,672**	1,101
Total recognised gains for the year	**73,298**	56,566
Prior year adjustment (note 7)	**(6,735)**	
Total gains and losses recognised since last annual report	**66,563**	

	2000 €000	1999 As Restated €000
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Balance, beginning of year		
- As previously reported	**296,701**	241,145
- Prior year adjustment	**(6,735)**	(10,261)
- As restated	**289,966**	230,884
Total recognised gains for the year	**73,298**	56,566
Issue of share capital - employee share scheme	**-**	2,516
Balance, end of year	**363,264**	289,966

	2000 €000	1999 As Restated €000
MOVEMENTS ON PROFIT AND LOSS ACCOUNT		
Balance, beginning of year		
- As previously reported	**(28,085)**	(81,125)
- Prior year adjustment	**(6,735)**	(10,261)
- As restated	**(34,820)**	(91,386)
Profit retained for year	**71,626**	55,465
Currency translation and other movements	**1,672**	1,101
Balance, end of year	**38,478**	(34,820)

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 except where indicated.

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 1999 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. The results of subsidiaries disposed of during the year are included in the consolidated accounts up to the effective date of disposal.

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 schemes, the majority of which are defined benefit pension schemes.

The amount charged to the profit and loss account in respect of such schemes and other post-retirement obligations is the estimated regular cost of providing the benefits accrued in the year (as advised by professionally qualified actuaries), adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining service lives of 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. This represents a change in accounting policy in 2000 arising from the adoption of the provisions of FRS 19 (Deferred tax), as previously provision was only made for deferred tax to the extent that it was expected to become payable in the foreseeable future.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

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		
- Fokker 50s	15	Nil
- Other 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.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

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 designated 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 2000

1. Turnover and Operating Profit

	2000			1999			
	Continuing - Before Exceptional Items €000	Exceptional Items €000	Total €000	Continuing - Before Exceptional Items €000	Discontinued - Before Exceptional Items €000	Exceptional Items €000	Total €000
Turnover							
Passenger and Cargo Services	**1,372,419**	**-**	**1,372,419**	1,134,224	40,444	33,013	1,207,681
Cost of Sales	**970,258**	**-**	**970,258**	786,754	37,732	-	824,486
Gross Profit	**402,161**	**-**	**402,161**	347,470	2,712	33,013	383,195
Operating Expenses							
Selling and Marketing	**213,506**	**-**	**213,506**	170,055	-	2,793	172,848
Administrative	**108,724**	**-**	**108,724**	105,793	129	-	105,922
Employee Participation	**4,416**	**(4,416)**	**-**	2,564	-	5,993	8,557
	326,646	**(4,416)**	**322,230**	278,412	129	8,786	287,327
Operating Profit	**75,515**	**4,416**	**79,931**	69,058	2,583	24,227	95,868

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

Details of Exceptional Items under the captions indicated within the profit and loss account are set out below.

	2000 €000	1999 €000
Continuing Operations		
Turnover/Selling and Marketing Expenses		
- Passenger sales (a)	**-**	30,220
Employee Participation (b)	**4,416**	(5,993)
(Loss)/Profit on Disposal of Fixed Assets		
- Disposals of aircraft and flight equipment	**(1,510)**	10,779
Costs of Fundamental Restructuring		
- Strategic alliance (c)	**(6,170)**	(1,415)
- Initial Public Offering (d)	**(4,821)**	-
	(8,085)	33,591
Discontinued Operations		
Profit/(Loss) on Exit from Non-Core Activities		
- AerFi Group plc (e)	**11,606**	-
- Maintenance activities (f)	**-**	(56,097)
- Ground and cargo handling (g)	**1,661**	(8,195)
- Equant NV (h)	**-**	13,059
- Other	**-**	6,373
	13,267	(44,860)
Net exceptional items before tax	**5,182**	(11,269)
Tax on exceptional items	**364**	3,837
Net exceptional items after tax	**5,546**	(7,432)

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

2. Exceptional Items (continued)

(a) The Group revised its method of estimating and recognising revenue relating to expired coupons in 1999. Included as an exceptional item in the 1999 accounts was an exceptional net credit of €30.2 million which related to the financial years 1998 and prior, resulting from the adoption of the revised methodology.

(b) Following the Irish Government announcement that a decision had been taken to arrange an Initial Public Offering of the Company's shares, discussions took place on the establishment of an Employee Share Ownership Plan (ESOP) and the utilisation of the remaining balance on the existing Employee Share Participation Scheme to partially fund the ESOP. The balance on the existing scheme at 31 December 1999 was €9.66 million, of which €3.67 million related to the 1999 profit share and €5.99 million remained to be allocated. The amount remaining to be allocated, €5.99 million, was charged as an exceptional item in the 1999 accounts. As an ESOP has not yet been put in place, the terms of the existing Employee Share Participation Scheme continue in effect for 2000. Under this scheme, eligible employees are entitled to 5% of the Group's profit before tax and exceptional items, which amounts to €4.42 million for 2000. This has been charged against the 2000 operating profit, with an equivalent revision made to the prior year exceptional item. Further details are set out in Note 20.

(c) Aer Lingus was elected as a member of the **one**world alliance in December 1999 and the costs incurred in becoming a member have been written off as an exceptional item.

(d) Costs incurred by the Group to 31 December 2000 in preparing for an Initial Public Offering have been written off as an exceptional item.

(e) During the year the Group sold its remaining shareholding in AerFi Group plc.

(f) The 1997 accounts included the Directors' estimate of the loss on the Group's exit from its maintenance activities. The additional loss charged in 1999 represented an adjustment to that estimate and was based on the amount estimated by the Directors to be necessary to state certain maintenance contracts at fair value. The amount provided was the present value of the excess of the contracted amounts over their fair value and the provision will be released over the life of the contracts (10 years from 01 January 1999).

(g) The loss on exit from ground and cargo handling activities in 1999 comprised the net loss on the disposal of the majority of the Group's UK based ground and cargo handling operations.

(h) In 1999 the Group disposed of 53% of its indirect interest in Equant NV acquired through its membership of the airline telecommunications co-operative, SITA.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

3. Interest Payable and Similar Charges

	2000 €000	1999 €000
On bank loans, overdrafts and other loans:		
- repayable within five years, by instalments	**-**	4
- repayable within five years, not by instalments	**1,595**	2,051
Finance lease interest	**27,925**	18,599
Interest on irredeemable capital	**254**	373
Other interest, principally on loans repayable after more than five years	**1,487**	3,043
Finance charge on discounted provision (note 2(f))	**3,339**	3,619
	34,600	27,689

4. Profit on Ordinary Activities before Taxation

	2000 €000	1999 €000
Profit on ordinary activities before taxation is stated after charging (crediting):		
Depreciation of tangible fixed assets *		
- owned	**23,380**	19,154
- held under finance leases	**30,563**	27,825
Operating lease rentals payable		
- plant and machinery	**166**	385
- aircraft	**125,314**	97,418
- property	**9,453**	9,716
Operating lease rentals receivable	**(1,326)**	(3,804)
Auditors' remuneration	**180**	189
Net losses on foreign currency borrowings less deposits	**3,793**	9,764

* including €3.1 million of accelerated depreciation charged to exceptional items in 2000 in respect of assets to be disposed of.

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 2000 amounted to €38.2 million (1999: €114m).

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

5. Directors' Emoluments

	2000 €000	1999 €000
Fees	**72**	79
Other emoluments (including pension contributions)	**551**	146
Pension payments to former directors	**84**	93
	707	318

In 2000, the Group paid to the Chief Executive, Mr M Foley, €166,000 less €78,000 in relevant taxes as compensation for benefits foregone as a result of his resignation from his previous employment.

The annual remuneration of Mr Foley as Chief Executive of Aer Lingus Group plc was as follows:

	€000
Fees	**6**
Basic salary	**381**
Performance related payments in 2000	**-**
Taxable benefits and pension provision	**180**
Total annual cost	**567**

Subsequent to the balance sheet date, Mr Foley's employment contract was terminated.

6. Staff Costs

The average number of persons employed by the Group in the financial year and their associated payroll costs were as follows:

	2000 No.	1999 No.
Passenger and Cargo Services	**6,624**	7,044

Group employee costs during the year amounted to:	2000 €000	1999 €000
Wages and salaries	**236,772**	241,725
Social welfare costs	**26,920**	25,093
Pension costs (Note 21)	**12,815**	12,129
	276,507	278,947
Employee Share Participation Scheme (Note 20)	**4,416**	3,670
Over provision in prior year	**-**	(1,106)
Net charge	**4,416**	2,564
	280,923	281,511

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

7. Taxation

The tax charge for the year comprises:

	2000 €000	1999 €000
Current tax		
Ireland		
Corporation tax	**5,165**	4,801
Overseas		
Corporation tax	**1,297**	1,347
Total current tax	**6,462**	6,148
Deferred tax		
Origination and reversal of timing differences	**11,938**	(3,864)
Effect of discount	**(1,529)**	460
Total deferred tax	**10,409**	(3,404)
	16,871	2,744

The differences between profit on ordinary activities multiplied by the standard Irish corporation tax rate of 24% (1999: 28%) and the current tax charge for the year are:

	2000 €000	1999 €000
Profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 24% (1999: 28%)	**21,384**	16,675
Effects of:		
Expenses not deductible for tax purposes	**2,414**	397
Depreciation in excess of capital allowances	**130**	145
Utilisation of tax losses	**(8,749)**	258
Utilisation of provisions	**(3,318)**	3,446
Differences in tax rates	**(5,399)**	(14,773)
Current tax charge for year	**6,462**	6,148

In prior years, the Group applied the provisions of SSAP 15 (Accounting for deferred tax), which only permitted a provision to be made for deferred tax to the extent that it was expected to become payable in the foreseeable future. Following its publication in December 2000, the Group has applied the provisions of FRS 19 (Deferred tax), which supersede those of SSAP 15 and require provision to be made for deferred tax on all timing differences which have originated at the balance sheet date. The effect of this change in policy is to reduce the tax charge in 1999 by €3.5m and to increase the deferred tax provision and reduce shareholders funds at 31 December 1999 by €6.7m. The effect of the change in 2000 is to increase the deferred tax charge by €10.4m.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

8. Earnings per share

	2000	1999
Weighted average number of shares in issue ('000)	**255,790**	254,655
Profit for the year (€000)	**71,626**	55,465
Earnings per share (cents)	**28.0c**	21.8c
Profit for the year from continuing operations before exceptional items (€000)	**66,080**	60,314
Earnings per share – continuing operations before exceptional items (cents)	**25.8c**	23.7c

9. Tangible Assets

	Flight Equipment €000	Property Freehold/ Leasehold €000	Ground Equipment €000	Other Equipment €000	Total €000
Cost					
Beginning of year	688,952	40,833	54,515	43,726	828,026
Additions	100,834	6,344	5,365	16,904	129,447
Disposals	(2,024)	(109)	(2,560)	(3,251)	(7,944)
Reclassifications	-	715	(1,519)	804	-
End of year	787,762	47,783	55,801	58,183	949,529
Depreciation					
Beginning of year	203,352	25,062	32,147	26,369	286,930
Charge for year	41,975	2,138	3,943	5,887	53,943
Disposals	(330)	(7)	(2,407)	(2,840)	(5,584)
Reclassifications	-	715	(1,519)	804	-
End of year	244,997	27,908	32,164	30,220	335,289
Net Book Value					
End of year	542,765	19,875	23,637	27,963	614,240
Beginning of year	485,600	15,771	22,368	17,357	541,096
Leased assets included in the above:					
Net book value - end of year	386,281	-	-	-	386,281
Net book value – beginning of year	402,413	-	-	13	402,426

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

10. Financial Assets

Group	**Unquoted investments €000**
Investments during year	922
At end of year	922

Company	**Shares in subsidiary undertakings €000**
Cost	
At beginning of year	328,494
Transfer to subsidiary undertaking	(127)
At end of year	328,367

A list of the Principal Group Companies at 31 December 2000, their principal activities, country of incorporation, and the Group holding percentage is set out in Note 24.

11. Stocks

	2000 €000	1999 €000
Consumable aircraft spares	**2,320**	2,239
Other stocks	**5,161**	4,412
	7,481	6,651

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

12. Debtors

	2000 €000	1999 €000
Amounts falling due within one year:		
Trade debtors	**59,695**	70,559
Other debtors	**40,315**	40,678
Prepayments and accrued income	**9,960**	8,891
Value Added Tax	**4,033**	3,738
	114,003	123,866
Amounts falling due after more than one year:		
Other debtors	**9,281**	5,441
	123,284	129,307

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

13. Cash, short-term deposits and liquid resources

	2000 €000	1999 €000
Cash and demand deposit balances	**15,691**	17,964
Other deposit balances and liquid resources	**365,765**	311,340
	381,456	329,304
Restricted cash deposit balances held to repay certain finance lease obligations (a)	**417,661**	398,152
Other restricted deposits (b)	**26,137**	33,699
	443,798	431,851
	825,254	761,155

(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 in full the lease obligations and related lease interest over the period of the leases.

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

14. Creditors: Amounts falling due within one year

	2000 €000	1999 €000
Bank loans and overdrafts (Note 15)	**40,614**	22,851
Finance lease obligations (Note 15)	**91,736**	68,534
Trade creditors	**63,723**	55,815
Accruals and deferred income	**141,539**	112,096
Passenger and Cargo sales in advance	**127,931**	117,470
Taxation and Social Welfare (a)	**23,448**	27,142
Other creditors	**31,195**	24,680
	520,186	428,588

(a) Taxation and Social Welfare creditors include:

	2000 €000	1999 €000
PAYE	**716**	4,694
Social Welfare	**543**	2,870
Overseas taxation	**15,403**	14,189
Corporation tax	**6,786**	5,389
	23,448	27,142

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

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

	2000 €000	1999 €000
Loan capital		
Repayable- within one year (Note 14)	**40,614**	22,851
- from one to two years	**9,742**	9,421
- from two to five years	**26,371**	25,019
- after five years	**-**	25,471
Irredeemable capital (a)	**6,349**	6,349
	83,076	89,111
Included in Creditors falling due within one year (Note 14)	**(40,614)**	(22,851)
	42,462	66,260
Finance lease obligations		
Repayable - within one year (Note 14)	**91,736**	68,534
- from one to two years	**86,657**	86,736
- from two to five years	**105,703**	133,428
- after five years	**222,531**	221,111
	506,627	509,809
Included in Creditors falling due within one year (Note 14)	**(91,736)**	(68,534)
	414,891	441,275
	457,353	507,535

(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 (1999 - 4% per annum).

(b) Loan capital and lease obligations of €546 million (1999 - €539m) are secured on various assets of the Group, principally aircraft.

(c) Loan capital and lease obligations of €269 million (1999 - €368m) at 31 December 2000 are denominated in various foreign currencies, including US Dollar, Sterling and Yen.

16. Provisions for Liabilities and Charges

	Business Repositioning	Aircraft Maintenance	Maintenance Contracts	Deferred Taxation	Aircraft Operating Lease Equalisation	Post Employment Benefits	Other	Total
	(a)	(b)	(c)			(d)	(e)	
	€000	€000	€000	€000	€000	€000	€000	€000
Beginning of year, as restated	24,901	58,206	60,643	6,735	8,982	21,947	27,539	208,953
Provided during year	-	44,344	-	10,409	31,665	3,507	4,920	94,845
Finance charge on discounted provision	-	-	3,339	-	-	-	-	3,339
Utilised during year	(4,419)	(30,634)	(8,723)	_	(33,846)	(1,028)	(6,286)	(84,936)
Transfers from net current assets	-	1,519	-	-	-	-	1,468	2,987
Translation adjustment	-	77	-	-	755	260	582	1,674
End of year	20,482	73,512	55,259	17,144	7,556	24,686	28,223	226,862

(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 communicated to employees and represents the Directors' best estimate of the cost of these measures, having regard to the current status of negotiations.
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.

(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 eight 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:	**2000**	1999
	€000	€000
Accelerated capital allowances	**39,300**	39,429
Tax losses carried forward	**(7,177)**	(15,926)
Provisions	**(7,782)**	(11,100)
Undiscounted provision for deferred tax	**24,341**	12,403
Discount	**(7,197)**	(5,668)
Discounted provision for deferred tax	**17,144**	6,735
Provision at beginning of year	**6,735**	
Deferred tax charge in profit and loss account for year	**10,409**	
Provision at end of year	**17,144**	

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

17. Called-Up Share Capital

	2000 €000	1999 €000
Authorised:		
500,000,000 shares of €1.25 (1999: IR£1) each	**625,000**	634,869
Issued and fully paid:		
255,790,555 shares of €1.25 (1999: IR£1) each	**319,738**	324,786

On 28 September 2000, in accordance with Section 26 of the Economic and Monetary Union Act 1998, the nominal value of the company's shares was redenominated from IR£1 to €1.269738 per share. These shares were then renominalised to €1.25 per share and an amount of €5.048 million was transferred to a Capital Conversion Reserve Fund.

18. Minority Interests

	2000 €000	1999 €000
Beginning of year	**3,167**	1,822
Share of retained profit for year	**601**	1,347
Other movements	**(252)**	(2)
End of year	**3,516**	3,167

19. Consolidated Cash Flow Statement

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

	2000 €000	1999 €000
Operating profit before exceptional items	**75,515**	71,641
Depreciation of tangible fixed assets	**50,857**	46,979
Movement in provisions	**8,846**	6,804
Increase in stocks	**(830)**	(2,416)
(Increase)/Decrease in debtors	**(8,036)**	52,003
Increase in creditors	**43,763**	68,946
Loss on exchange	**3,793**	9,764
IPO and strategic alliance expenditure	**(9,485)**	-
Net Cash Inflow from Operating Activities	**164,423**	253,721

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

19. Consolidated Cash Flow Statement (continued)

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

	2000 €000	1999 €000
Returns on investments and servicing of finance		
Interest received	**40,512**	23,629
Interest paid	**(17,971)**	(9,416)
Finance lease interest paid	**(20,610)**	(14,106)
Net cash inflow for returns on investments and servicing of finance	**1,931**	107
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(118,921)**	(172,977)
Purchase of financial fixed assets	**(922)**	-
Sale of tangible fixed assets	**3,830**	26,758
Net cash outflow for capital expenditure and financial investment	**(116,013)**	(146,219)
Acquisitions and disposals		
Sale of financial fixed assets:		
Equant NV	**6,847**	6,212
AerFi Group plc	**11,606**	-
Handling activities	**11,049**	(9,528)
Maintenance activities	**-**	(22,669)
Other	**-**	2,312
Net cash inflow/(outflow) from acquisitions and disposals	**29,502**	(23,673)
Financing		
Capital element of finance leases	**(16,738)**	225,227
New loan capital	**9,631**	131
Repayment of loan capital	**(27,953)**	-
Increase in restricted deposits	**(3,150)**	(237,064)
Net cash outflow from financing	**(38,210)**	(11,706)

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 00 €000	Cash Flow €000	Exchange Movement €000	Other Non-Cash Changes €000	Net Funds (Debt) 31 Dec 00 €000
Cash					
Cash in hand, at bank	17,964	(2,202)	(71)	-	15,691
Overdrafts	(20,402)	(12,488)	245	-	(32,645)
	(2,438)	(14,690)	174	-	(16,954)
Finance					
Debt due within one year	(2,449)	(5,520)	-	-	(7,969)
Debt due after one year	(66,260)	23,841	(43)	-	(42,462)
Finance leases	(509,809)	16,739	(13,557)	-	(506,627)
Restricted deposits	431,851	3,150	8,797	-	443,798
	(146,667)	38,210	(4,803)	-	(113,260)
Liquid Resources					
Other cash deposits and liquid resources	311,340	51,159	2,589	677	365,765
Total	162,235	74,679	(2,040)	677	235,551

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

20. Employee Share Participation Scheme

An Employee Share Participation Scheme (the "Scheme") was established by a Trust Deed executed on 13 March 1996. The Scheme provides that employees satisfying certain service criteria are entitled to share equally in a maximum of 10% of the Group's profit before tax and exceptional items, subject to the following:

- half the profit share must be taken in the form of shares in Aer Lingus Group plc, while the remainder may be taken in either cash or further shares
- when 5% of the issued share capital of Aer Lingus Group plc as at 31 December 1995 has been issued under the Scheme (12,180,503 shares), no more shares may be issued to employees and the profit share thereafter cannot exceed 5% of the Group's profit before tax and exceptional items
- when €15.5 million has 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 will cease.

The maximum permitted number of shares in Aer Lingus Group plc (12,180,503 shares) has been issued to the Trustees of the Scheme for appropriation to employees and accordingly no further shares may be issued.

The employees' share of the Group's profits for 2000 amounts to €4.42 million, which represents 5% of the Group's profit before tax and exceptional items of €88.3 million. This is arrived at by adjusting the Group's profit on ordinary activities before taxation of €89.1 million for net exceptional profit of €5.2 million (Note 2) and the net charge of €4.42 million for the employees' share of profits.

Movements on the Employee Share Participation Scheme from inception are as follows:

	Number of Shares Million	Cash €m
Maximum entitlement	12.2	15.5
Allocations made:		
1996 (in respect of 1995)	(2.7)	(0.7)
1997 (in respect of 1996)	(3.4)	(0.8)
1998 (in respect of 1997)	(4.1)	(0.6)
1999 (in respect of 1998)	(2.0)	(3.7)
2000 (in respect of 1999)	-	(3.7)
Allocation to be made in respect of 2000	-	(4.4)
Balance remaining to be allocated	Nil	1.6

Following the announcement by the Irish Government that a decision had been taken to arrange an Initial Public Offering (IPO) of the Company's shares, discussions took place on the establishment of an Employee Share Ownership Plan (ESOP) and the utilisation of the remaining balance on the Employee Share Participation Scheme to partly fund the purchase of shares to be held on behalf of the ESOP. The remaining balance on the Scheme at 31 December 1999 was €9.66 million, of which €3.67 million related to the 1999 profit share and €5.99 million remained to be allocated. The amount remaining to be allocated of €5.99 million, which was expected to be utilised to partly fund the ESOP, was charged as an exceptional item in the 1999 accounts. As an ESOP has not yet been put in place, the terms of the existing Employee Share Participation Scheme remain in effect for 2000 and the employees' share of the 2000 profits of €4.42 million has been charged against the 2000 operating profit, with an equivalent revision made to the prior year exceptional item.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

21. Pensions

The Group operates a number of externally funded defined benefit pension schemes for the majority of its employees, one of which, the Irish Airlines (General Employees) Superannuation Scheme, is operated in conjunction with a number of other employers.

Regular actuarial valuations are carried out, normally every three years, in respect of the schemes. The latest actuarial reports, based on valuations at dates ranging from 01 January 2000 to 31 March 2000, were completed by independent actuaries and disclosed the schemes to have a surplus of assets over liabilities. The principal actuarial method used was the Aggregate Method. The primary financial assumption underlying the actuarial valuations was that the yield on the schemes' investments will earn a real rate of investment return of 2% per annum over general salary inflation for members. No explicit provision was made for future pension increases. The total market value of the assets of the schemes at the valuation dates was €2,103 million and the level of funding was 130%. Actuarial reports are not available for public inspection.

The Group's pension contributions charged for the year were €12.8 million (1999 - €12.1m), based on rates as advised by the actuaries. An amount of €4.4 million (1999 - €3.8m) is included in Creditors, being the excess of the accumulated pension cost together with other pension liabilities over the amounts paid to the schemes at 31 December 2000.

22. Guarantees and Other Financial Commitments

(a) Capital commitments

At 31 December 2000 the Group had capital commitments as follows:

	2000 €000	1999 €000
Contracted for but not provided		
- Aircraft and equipment	**375,543**	219,037
- Other	**26,064**	11,687
Authorised but not contracted for	**2,057**	1,230
	403,664	231,954

(b) Lease commitments

At 31 December 2000 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	2,004	11,867	312
Between two and five years	1,161	99,211	1,295
After five years	2,915	10,252	-
	6,080	121,330	1,607

(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: Aer Lingus Limited, Aer Lingus Shannon Limited, Aer Lingus Commuter Limited, Aer Lingus Investments Limited, Derent Limited, Aberport Limited, Aviation Services (Ireland) Limited, Dirnan Ireland Limited, Shinagh Limited and SRS Aviation (Ireland) 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.

NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

22. Guarantees and Other Financial Commitments (continued)

(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 2000 are forward purchases of US Dollars 183 million and Sterling £44 million (1999: US Dollars 88m) and forward sales of Sterling £157 million (1999: Sterling £107m).

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.

(c) Deposits with financial institutions owned by the Irish Government
In the ordinary course of its business the Group deposits funds with financial institutions owned by the Irish Government (ACC Bank and ICC Bank). At 31 December 2000 deposits with these entities amounted to €62 million.

24. Principal Group Companies

	Country of Incorporation	Principal Activity	Group Holding %
Aer Lingus Limited	Ireland	Air Transportation	100
Aer Lingus Beachey Limited	Isle of Man	Aircraft Financing	100
Compania Hispano Irlandesa de Aviacion SA (trading as Futura)	Spain	European Charter Services	85
Timas Limited (trading as Galileo Ireland)	Ireland	Reservations Systems Support	75
Aviation Services (Ireland) Limited	Ireland	Revenue Accounting Services	100

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.

GROUP FINANCIAL RECORD - IRISH POUNDS

SUMMARISED PROFIT AND LOSS ACCOUNT

		2000 IR£000	1999 IR£000
Turnover	- continuing operations	**1,080,868**	893,274
	- discontinued operations	**-**	31,852
		1,080,868	925,126
Cost of sales		**(764,140)**	(649,335)
Gross Profit		**316,728**	275,791
Other operating expenses	- operating	**(253,777)**	(217,350)
	- employee participation	**(3,478)**	(2,019)
		(257,255)	(219,369)
Operating Profit	- continuing operations	**59,473**	54,388
	- discontinued operations	**-**	2,034
		59,473	56,422
Exceptional Items		**4,081**	(8,875)
Net interest receivable/(payable)		**6,616**	(643)
Profit before tax		**70,170**	46,904
Taxation		**(13,287)**	(2,161)
Profit after tax		**56,883**	44,743
Minority interests		**(473)**	(1,061)
Profit for the year		**56,410**	43,682

SUMMARISED BALANCE SHEET

	2000 IR£000	1999 IR£000
Fixed Assets	**484,480**	426,148
Net current assets	**343,246**	368,993
Creditors: amounts falling due after more than one year	**(360,195)**	(399,716)
Provisions	**(178,668)**	(164,564)
	288,863	230,861
Shareholders' funds	**286,094**	228,367
Minority interests	**2,769**	2,494
	288,863	230,861