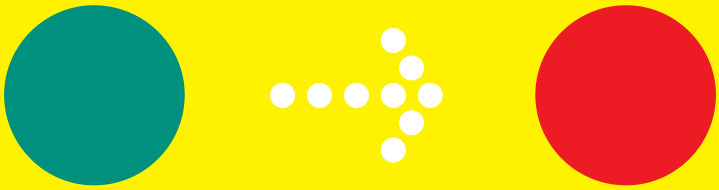
ANNUAL REPORT 2001

aerlingus.com

RADICAL



CONTENTS

CHANGE

I am pleased to report that the Survival Plan has now been implemented and a number of significant actions have been taken to restructure operations

My appointment as Chairman in August 2001 came during what transpired to be a very difficult year for Aer Lingus. In 2001 we incurred a loss of €139.9 million, including net exceptional costs of €104.1 million.

The economic and industrial environment in which Aer Lingus operates changed dramatically during the year, culminating in the aftermath of the events of September 11 in the United States. On behalf of the Board, I express sorrow to all of our customers and colleagues in the industry who were impacted by these tragic events.

The Board and management responded quickly to this major crisis. We acted swiftly to reduce costs, conserve cash, reduce capacity and stimulate demand through fare reductions. A comprehensive Survival Plan was finalised within weeks.

I am pleased to report that the Survival Plan has now been implemented and a number of significant actions have been taken to restructure operations. These include new pricing and advertising initiatives, new routes and reduced distribution costs arising from commission reductions and increased sales through our website, aerlingus.com. These actions recognise that the only future for Aer Lingus is to provide lower fares for our customers whilst retaining value for money.

On behalf of the Board, I would 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 under the Survival Plan. Since September 11, our people have been called upon to demonstrate that they can be flexible and quick to change. These qualities will be essential for us to compete successfully in an increasingly competitive environment.

We are fortunate to have a dynamic, capable and enthusiastic management team following the appointment of Willie Walsh as Chief Executive in October 2001. This team was further strengthened by the subsequent appointments of Brian Dunne as Chief Financial Officer and Seamus Kearney as Chief Operations Officer.

I would like to thank the members of the Board for their frequent availability and commitment particularly during 2001. There were a number of changes to the Board in 2001. We were saddened to learn of the untimely death of Bernie Cahill on 17 August 2001. I would like to acknowledge Bernie's tremendous contribution to the development of the airline since his appointment as Chairman in 1991. I would also like to thank John O'Donovan and Larry Stanley for their service to the Group over a number of years and wish them well in the future. Michael Foley ceased to be a director in June 2001, on the termination of his contract of employment. Willie Walsh and Dan Loughrey, Corporate Affairs Director, were appointed to the Board in November, 2001.

I would like to thank the former Minister for Public Enterprise, Mary O'Rourke, and the officials of the Departments of Public Enterprise and Finance for their whole hearted assistance throughout 2001. The Board and management are also looking forward to working with the recently appointed Minister for Transport, Seamus Brennan T.D. and the officials of his new Department.

I am confident that with the right ethos Aer Lingus can meet the challenges ahead and compete successfully in the future. Working together we will continue to change the way we do business, offer our customers lower fares for a commensurate service and return the company to profitability as soon as possible.

Tom Mulcahy Chairman

DIRECTORS

WILLIE CLARKE
Mr Clarke was appointed to the Board as an elected Director in May 1998. He is a Senior Cargo Agent in the Cargo Terminal, Dublin Airport. He is also President of the Aer Lingus SIPTU Branch.

FRANK COX
Mr 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
Mr. 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 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.

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

NORA O'REILLY
Ms. 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.

DESMOND J RICHARDSON
Mr Richardson was appointed to the Board in Novermber 1997. He is a Business and Political Advisor.

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.

WILLIE WALSH
Willie Walsh became Chief Executive in October 2001 and was appointed to the Board in November. 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.

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.

IMPLEMENTING

WILLIAM WALSH
Chief Executive

SEAMUS KEARNEY
Chief Operations Officer

BRIAN DUNNE
Chief Financial Officer

DAN LOUGHREY
Corporate Affairs Director

NIALL WALSH
Services Director

TRANSFORMING

We are continuing our programme of change beyond mere survival to improve our competitiveness and efficiency and to grow our profitability

The tragic events of September 11 2001 had a devastating impact on the airline business. In the immediate aftermath traffic melted away and the understandably high priority given to increased security measures will be a constant fact of life into the future. From a business perspective those awful events accelerated trends which were already gathering pace in this industry. In July 2001 we had already issued a trading statement forecasting a loss for the year due to the effects of the Foot and Mouth outbreak and the downturn in the United States economy. Intensifying competition, downward pressure on fares and high costs were the main issues facing Aer Lingus, which were exacerbated by the effects of September 11.

Aer Lingus reacted quickly to the crisis in the industry. Within weeks the Board had approved a radical Survival Plan. The Labour Relations Commission endorsed the employee elements of the Plan by the end of November and implementation was well underway by the end of the year.

The Survival Plan has now been implemented. The annual cost base has been reduced by over €200 million, nearly 2,000 staff have left the airline and extensive changes in work practices have been implemented resulting in greater productivity and efficiency. Non-staff cost areas are also being reduced. Distribution costs have begun to be tackled by a combination of cutting trade commissions and aggressive promotion of direct sales through our telesales centre and a revamped website aerlingus.com.

Recognising the reality of the change taking place in the industry we not only set out to restructure the business but also began a process to build a new more customer focused commercially sustainable business model. The greater efficiencies emerging from the Survival Plan allowed us to work our aircraft assets harder and to initiate five new routes in a five-month period from within existing resources.

Much of the cost reduction achieved under the Survival Plan has been passed on to customers in the form of lower fares. We committed to make over three million cheap seats available in the Irish market in 2002 at prices up to 60% lower than the previous year. To date, more than two million of these seats have been sold.

The effect on traffic has been dramatic. In the first five months of 2002 we have carried more passengers with less capacity than during the same period last year. The way forward for the business is clear. We are committed to the widespread availability of low fares. We are equally committed to a good professional level of service. We have already begun to show that this is a winning combination for our customers and for the business. To sustain this business model and to grow the business and our profitability into the future we must continue the type of actions we have been taking.

PERFORMANCE

In summary, we have made good progress under the Survival Plan. We are now in a post Survival Plan mode. We are continuing our programme of change beyond mere survival to improve our competitiveness and efficiency. This will enable us to compete by providing lower fares, combined with a quality service to our growing customer base and also to grow our profitability. In doing this we are focusing totally on the core airline business.

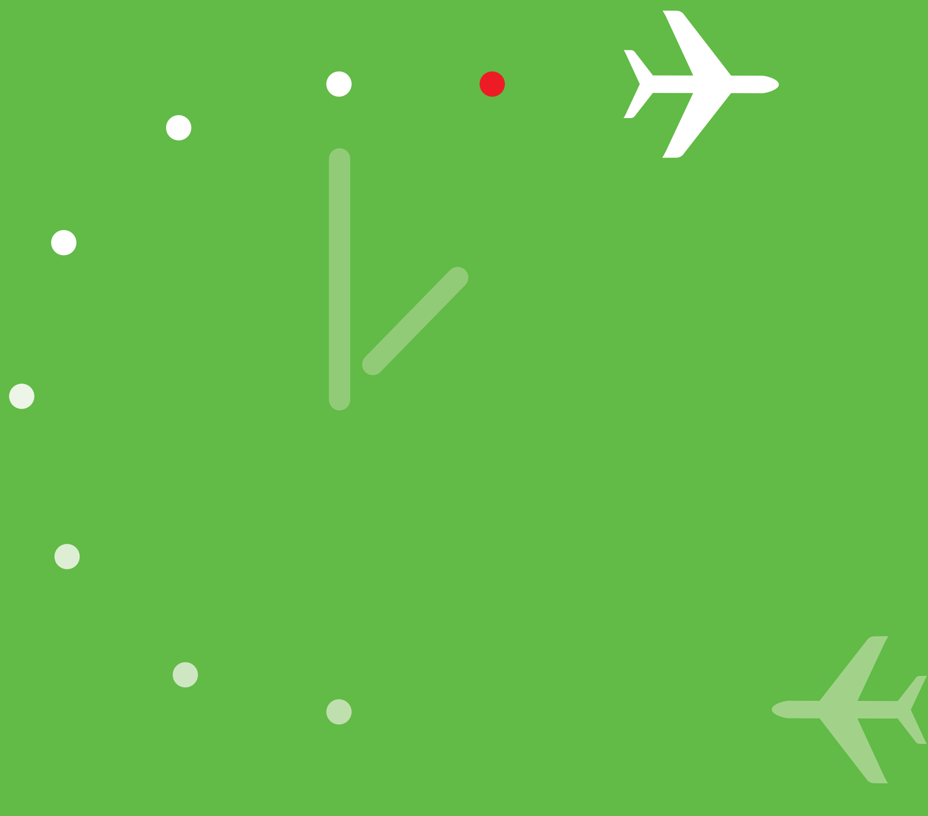
Conceptually, this is a simple business. In the past many airlines, Aer Lingus included, have been guilty of over complicating it. We are committed to getting our customers to their destinations as cheaply, simply and efficiently as possible. To achieve this we must continue to drive excess cost out of the business. We have already begun the next tranche of cost reduction which will see our cost base reduce by a further €130 million on top of the cost reductions achieved under the Survival Plan. This means taking cost out under all headings. Cost reduction coupled with greater asset utilisation and more efficient work practices are central to the future ethos of our business.

Our programme to achieve faster turn-round of aircraft means that we will carry more passengers on more routes with less aircraft in winter 2002 than in the previous year. We are also simplifying our way of doing business. This reduces cost for Aer Lingus, reduces fares for our customers and makes for a simpler, less cluttered journey.

The way forward for this business is based on a view of the industry that sees competition increasing and fares falling. Our experience since September 11 shows that price will stimulate the market. Matching low fares with a quality service can be truly unbeatable. Making healthy profits based on this business model means continuing to drive greater efficiency and an unrelenting focus on cost reduction. This we are committed to doing. The journey has just begun.

Willie Walsh Chief Executive

IN - OUT



TURNAROUND

OVERVIEW

The Group recorded an operating loss of €50.4 million in 2001 (2000 – operating profit of €79.9 million).

The loss for the year, after net exceptional losses of €104.1 million, amounted to €139.9 million.

As a result of the above, shareholders' funds decreased to €223.9 million at 31 December, 2001 (2000 - €363.3 million).

OPERATING REVIEW

The economic and industrial environment in which Aer Lingus operates changed dramatically during 2001. A number of external factors, including the outbreak of Foot and Mouth disease, worsening general economic conditions and the events of September 11 in the United States significantly affected air traffic into and out of Ireland.

Passenger numbers fell by 4.6%, to 6.6 million, in 2001 and the passenger load factor fell to 72% (2000: 76%). The fall in business traffic and our decision to reduce prices to stimulate demand resulted in significant decreases in average yields.

Total cargo carried on Aer Lingus services, excluding mail, decreased by 12.5% during the year in line with weaker customer demand.

These factors depressed airline revenue and combined with significant increases in payroll and the operating cost base resulted in an operating loss of €50.4 million for 2001.

Aer Lingus management prepared a Survival Plan to overcome these trading difficulties and to restructure the operations of the airline. The key aspects of the Plan are outlined in further detail in Note 1.

SCHEDULED PASSENGERS

Total capacity, as measured by Available Tonne Kilometres (ATKs), rose by 6.5% to 1,495 million from 2000. Output sold deteriorated by 1.4% to approximately 1,000 million Revenue Tonne Kilometres (RTKs).

Transatlantic traffic accounted for 1.1 million passengers in 2001 and was unchanged from 2000 traffic levels. Following a review of the transatlantic network, the Newark and Baltimore routes were withdrawn from the schedule in October 2001. Aer Lingus continues to be the market leader on transatlantic routes into and out of Ireland and this market accounted for approximately 40% of 2001 scheduled passenger revenue.

Total traffic on European routes fell by 6% compared to 2000. There was a decrease of 0.9% in 2001 passenger numbers on the three London routes of Heathrow, Gatwick and London City. Traffic levels on the UK Provincial commuter routes were 15% behind 2000 levels due to weaker customer demand and increased competition on certain routes. Traffic on the Continental European network was 5% ahead of last-year.

As part of the restructuring of activities to increase efficiency, resources are being freed up and reallocated to provide new services. Since the year end, Aer Lingus has announced new routes to five Continental European destinations – Barcelona, Nice, Malaga, Alicante and Faro.

POPULAR

ROUTES

CARGO

While there was an increase in total cargo capacity in 2001, the total cargo carried on Aer Lingus services, excluding mail, decreased by 12.5% to 35,900 tonnes. Total cargo revenue fell by 10.5% compared to last year.

Tonnage carried on the transatlantic network decreased by 4,000 tonnes (14%) in line with weaker customer demand, particularly in the IT sector and worsening economic conditions. Tonnage on the European network decreased by 9% from last year.

In line with this volume decrease, transatlantic cargo revenue fell by 13% as compared to 2000 and European revenues fell by 7%. The transatlantic network continues to generate the largest proportion of cargo revenue, representing 84% of the scheduled cargo revenue for 2001.

Mail handling revenue increased by 12% while terminal handling revenues fell by 4%.

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

FLEET

Aer Lingus operated a peak fleet of 39 aircraft during 2001. The average age of the Aer Lingus fleet at 31 December 2001 was 7.7 years, which compares favourably with industry averages.

In response to the reduction in output sold and the deterioration of the global airline industry, Aer Lingus has undertaken a detailed review of its fleet requirement. The outcome of this review is a decision to reduce the 2002 operating fleet. To date, two Boeing 737-400 aircraft have been sold; one A330-300 and two Bae146-300s will be returned to lessors; and one further A330-300 is being retained on a power by hour basis.

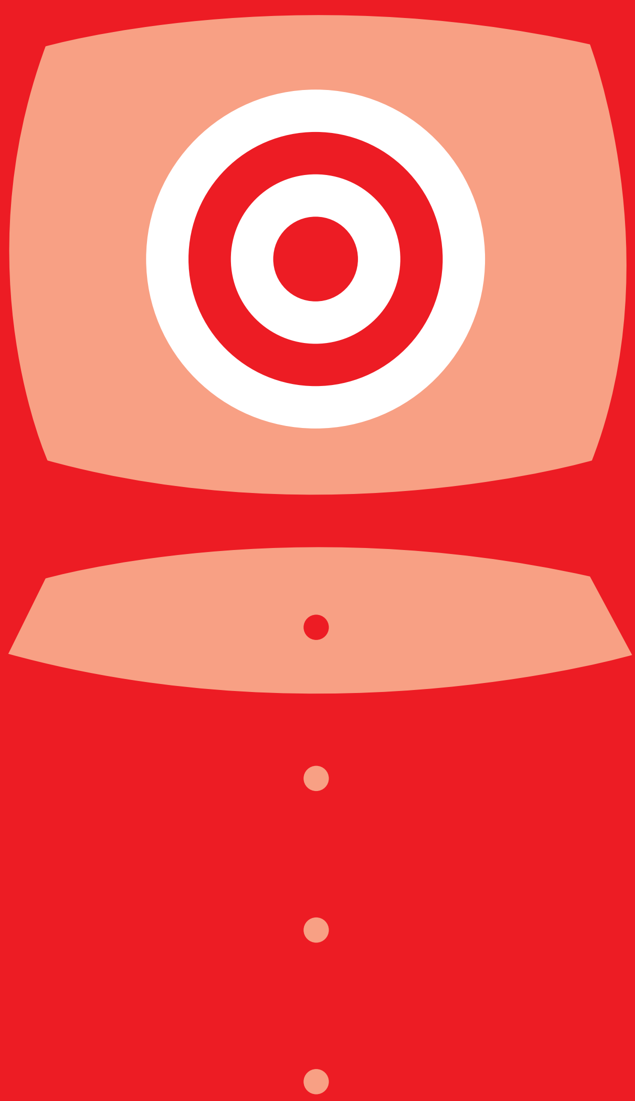
At the year end, fleet expenditure commitments consisted of contracts for two Airbus A320s for delivery in 2002 and four Airbus A319s for delivery in 2003. The delivery of the two A320s in 2002 has been deferred and negotiations are on-going with Airbus and other manufacturers regarding future aircraft requirements, including the four A319s.

FUTURA AND OTHER SUBSIDIARIES

Aer Lingus' Spanish based charter airline Futura experienced difficult trading conditions during 2001. While revenue increased by 8% from last year, operating profits fell from 2000 levels. This decline in profitability reflects higher oil prices and the fall in the value of the euro against the dollar, which contributed to an increase in the cost of dollar denominated costs such as fuel and lease rentals. Futura continued to make a positive contribution to Group profitability in 2001.

During the past number of years the Group has undertaken a policy of selling non-core businesses and intends to focus all of its resources on its scheduled airline business. As a result the Group is in the process of disposing of its shareholdings in Futura and Timas (Galileo Ireland). The Group concluded the sale of Aviation Services (Ireland) Limited in June 2002.

ONLINE



aerlingus.com

TARGETS

FINANCIAL REVIEW

LOSS BEFORE TAXATION

Group Turnover fell by 2% to €1,347.3 million in 2001 (2000: €1,372.4 m).

Overall costs rose by 8% in 2001, resulting in a negative operating margin for the year (2000 - operating margin of 5.8%). Payroll costs increased by 14% from 2000 levels, in line with the negotiation of pay settlements with staff. The rise of 27% in fuel costs significantly impacted the profitability of the business. Aer Lingus' policy of managing fuel price exposure is outlined in the treasury and risk management section below. Maintenance costs increased by 13% from 2000. The fall in the value of the euro against the dollar also contributed to an increase in the company's dollar denominated costs.

The high and inflexible cost base, combined with the fall in turnover during the year, resulted in a Group operating loss of €50.4 million. The operating loss is net of Irish Government compensation of €6.7 million in respect of the closure of United States airspace following the events of September 11.

The EBITDAR margin was 11.4%, a decrease on 2000 levels of 18.2%. This decrease reflects the difficult trading conditions and the increase in the payroll and the direct cost base.

Exceptional costs of €115.4 million (before taxation) arose mainly due to the implementation of the Survival Plan and relate to the cost of the employee severance and early retirement programmes and provisions for fleet rationalisation. Note 1 contains further details of the make-up of this amount.

After net interest income of €8.7 million in 2001 (2000: €8.4 m) the Group loss on ordinary activities before taxation amounted to €157.1 million.

TAXATION

A taxation credit of €17.7 million (2000: taxation charge of €16.9 m) arose in 2001 due to the availability of tax losses and the revision of previous years' provisions (€2.5 million).

LOSS PER SHARE

The loss for the year is €139.9 million (2000: profit of €71.6 m) which results in a loss per share of 54.7c (2000: earnings per share of 28.0 c). The loss per share before exceptional items is 14.0c (2000: earnings per share before exceptional items of 25.8c).

BALANCE SHEET

Shareholders funds' decreased to €223.9 million at the year-end (2000: €363.3 m) and the net cash position decreased by €169.6 million, to €66.0 million.

There is a requirement for additional equity investment in order to secure the future cash and development needs of Aer Lingus. In October 2001, in accordance with previous directions from the Irish Government, the Board and management of Aer Lingus were given a mandate by the Minister for Public Enterprise, on behalf of the Irish Government, to facilitate private sector interests and staff in investment in Aer Lingus.

REVIEW OF CASH FLOW

Cash generated from operating activities fell by €115.7 million in 2001. This reflects the decreased overall profitability of the Group in line with the factors identified in the operating review above. In addition, depreciation has increased reflecting the higher levels of capital expenditure in 2000 and 2001. The control of working capital levels remains an important priority for the company and this is reflected in a net working capital inflow of €8.1 million for the year.

Net cash inflow from investments and servicing of finance increased to €16.0 million.

Tax payments, at €4.8 million are broadly in line with 2000 levels.

Capital expenditure increased to €231.3 million in the current-year, reflecting the expansion of the aircraft fleet in the first few months of 2001.

These factors resulted in a cash outflow of €169.9 million for the year, before the use of liquid resources and financing.

A reduction in the repayment of loan capital in the current year contributed to a decrease in the cash outflow from financing in the current year.

LIQUID RESOURCES

The cash and liquid resources balance fell by €198.7 million to €626.6 million at the 31 December 2001, reflecting the deterioration in trading conditions and the other factors outlined in this review. This balance includes €457.1 million of restricted cash deposits, comprising deposits to meet finance lease obligations and certain loan deposits.

Net cash at 31 December 2001 is €66.0 million, a decrease from €235.6 million in 2000.

As outlined in further detail in Note 1, management has taken prompt action, pre and post year-end to strengthen the liquidity position of Aer Lingus. A detailed review of operations, including capacity, schedules, costs and revenues, has been undertaken before the year-end in order to identify ways of conserving cash. The post year-end actions include the sale of two surplus aircraft, the release of certain restricted deposits and the negotiation of a new working capital facility.

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 primary objective of the treasury management policy is the reduction or, where possible, the elimination of the impact of such fluctuations on the Group's financial performance. This involves the identification and quantification of exposures and the execution of measures to minimise any negative impact on the performance of the Group. The treasury management policy also ensures that adequate reporting procedures are in place.

Financial market instruments are used solely to hedge an underlying exposure and the Group does not, under any circumstances, enter into a financial instrument transaction to generate premium income or trade in financial instruments.

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. The exchange rate management policy provides for a minimum cover of 50% of exposures (i.e. net unmatched foreign currency costs and revenues) for the current financial year and a minimum cover of 25% of the exposure of the following financial year. At 31 December 2001 the Group's dollar exposure for 2002 was hedged at 61% and the sterling exposure was hedged at 73%. 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 interest rates will be fixed for a minimum period of not less than three years on not less than 50% of the forecasted long-term debt requirement.

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 to maintain a minimum hedging level of 60% of quarter one and 30% of quarter two, three and four volumes, by the start of each year, with an overall minimum cover of 40% of annual volumes. At 31 December 2001 Aer Lingus had fuel derivatives covering approximately 62% of its estimated 2002 requirement. Since the year end, Aer Lingus has covered its entire 2002 exposure through the use of fuel hedging instruments.

EMPLOYEE SHARE PARTICIPATION SCHEME

As outlined in Note 20, the existing employee share participation scheme was established in March 1996. No profit share entitlement arises in respect of 2001 (2000: €4.4 million).

In December 2001, additional employee share participation arrangements were proposed in connection with the Survival Plan which will allow staff to acquire up to 14.9% of the company (including the 4.76% currently held by staff - Note 20) and also to receive 10% of the Group's profit before exceptional items, capped at €25.4 million. These arrangements have yet to be finalised.

FINANCIAL HIGHLIGHTS

FOR YEAR ENDED 31 DECEMBER 2001

	2001 €000	2000 €000
Turnover	**1,347.3**	1,372.4
Operating (Loss) Profit	**(50.4)**	79.9
EBITDAR [(1)]	**153.0**	249.2
Net exceptional (cost) credit	**(104.1)**	5.5
(Loss) Profit for the year	**(139.9)**	71.6
(Loss) Earnings per share (cent)	**(54.7)c**	28.0c
Balance Sheet		
Shareholders' funds	**223.9**	363.3
Free cash	**169.5**	381.5
Net cash and liquid resources [(2)]	**66.0**	235.6

[(1)] Earnings before interest, tax, depreciation, amortisation and aircraft rentals.

[(2)] Free cash plus restricted cash deposits less finance lease obligations and debt.

DIRECTORS' REPORT
YEAR ENDED 31 DECEMBER 2001

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 2001.

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.

Results for the Year and State of Affairs as at 31 December 2001
The consolidated profit and loss account for the year ended 31 December 2001 and the consolidated balance sheet at that date are set out on pages 18 and 19. The loss for the year, after net exceptional losses of €104.1 million, amounted to €139.9 million (2000 – profit of €71.6m, after net exceptional profits of €5.5m).

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

	€ million
Balance, 31 December 2000	38.5
Loss for the year	(139.9)
Other movements, net	0.5
Balance, 31 December 2001	(100.9)

As a result of the loss for the year of €139.9 million and currency translation and other adjustments of €0.5 million, shareholders' funds decreased by €139.4 million since those reported at 31 December 2000. 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 2001.

Future Developments
The Directors intend to develop the Group's activities by focusing on its core Airline business, implementing the Survival Plan and acting on the Government decision of October 2001 to facilitate private sector interests and the staff of the Airline in an investment in the Group. Further details are set out in note 1.

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 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	John O'Donovan
Bernie Cahill RIP	Dermot Rafferty*
Willie Clarke*	Desmond Richardson
Michael Foley	Mick Sweeney*
Rose Hynes	Chris Wall
John Keane	Willie Walsh
Joan Loughnane*	Patrick Wright
Dan Loughrey	

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

Tom Mulcahy, Willie Walsh and Dan Loughrey were appointed to the Board on 30 August 2001, 21 November 2001 and 28 November 2001 respectively. Bernie Cahill RIP died on 17 August 2001. John O'Donovan resigned from the Board on 31 October 2001. 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 2001 in the share capital of the Company or any Group undertaking at 01 January 2001 and 31 December 2001 were:

	Aer Lingus Group plc Shares of €1.25 each	
	31 December 2001	**01 January 2001***
Willie Clarke	3,052	2,410
Joan Loughnane	3,052	2,410
Dan Loughrey	3,210	3,210
Willie Walsh	2,410	2,410
Dermot Rafferty	9,052	6,410
Mick Sweeney	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 2001.

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 result, 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 2001, 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 2001 was to comply with the requirements of the Act.

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	**R. Hynes**
Chairman	Director

28 March 2002

INDEPENDENT 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' responsibilities for preparing the annual report and the accounts in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on pages 14 and 15 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.

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

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the loss 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.

INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE MEMBERS OF AER LINGUS GROUP PLC

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 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 2001 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

28 March 2002

(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 2001

	Notes	2001 Continuing Operations Before Exceptional Items €000	2001 Exceptional Items €000 (Note 1)	2001 Total €000	2000 Continuing Operations Before Exceptional Items €000	2000 Exceptional Items €000 (Note 1)	2000 Total €000
Turnover	2	**1,347,315**	-	**1,347,315**	1,372,419	-	1,372,419
Cost of Sales	2	(1,093,205)	-	(1,093,205)	(970,258)	-	(970,258)
Gross Profit		**254,110**	-	**254,110**	402,161	-	402,161
Other operating expenses							
- operating		(304,475)	-	(304,475)	(322,230)	-	(322,230)
- employee participation	20	-	-	-	(4,416)	4,416	-
		(304,475)	-	(304,475)	(326,646)	4,416	(322,230)
Operating (Loss)/Profit	2	(50,365)	-	(50,365)	75,515	4,416	79,931
Exceptional Items							
Cost of fundamental restructuring		-	(123,099)	(123,099)	-	(10,991)	(10,991)
Profit/(Loss) on disposal of fixed assets		-	744	744	-	(1,510)	(1,510)
Profit on exit from non-core activities		-	6,940	6,940	-	13,267	13,267
(Loss)/Profit on Ordinary Activities before Interest		(50,365)	(115,415)	(165,780)	75,515	5,182	80,697
Interest receivable and similar income		39,859	-	39,859	43,001	-	43,001
Interest payable and similar charges	3	(31,151)	-	(31,151)	(34,600)	-	(34,600)
(Loss)/Profit on Ordinary Activities before Taxation	4	(41,657)	(115,415)	(157,072)	83,916	5,182	89,098
Taxation	7	6,392	11,349	17,741	(17,235)	364	(16,871)
(Loss)/Profit on Ordinary Activities after Taxation		(35,265)	(104,066)	(139,331)	66,681	5,546	72,227
Minority Interests	18	(592)	-	(592)	(601)	-	(601)
(Loss)/Profit for Year		(35,857)	(104,066)	(139,923)	66,080	5,546	71,626
(Loss)/Earnings per Share (cent)	8			(54.7)c			28.0c
(Loss)/Earnings per Share - continuing operations before exceptional items (cent)	8			(14.0)c			25.8c

T. Mulcahy
Chairman

R. Hynes
Director

Approved by the Board of Directors on 28 March 2002.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2001

	Notes	2001 €000	2000 €000
Fixed Assets			
Tangible assets	9	**721,159**	614,240
Financial assets	10	**-**	922
		721,159	615,162
Current Assets			
Stocks	11	**6,683**	7,481
Debtors	12	**108,473**	123,284
Cash, short term deposits and liquid resources			
Free cash	13	**169,474**	381,456
Restricted cash	13	**457,079**	443,798
		741,709	956,019
Creditors: Amounts falling due within one year	14	**(488,743)**	(520,186)
Net Current Assets		**252,966**	435,833
Total Assets less Current Liabilities		**974,125**	1,050,995
Creditors: Amounts falling due after more than one year	15	**(456,601)**	(457,353)
Provisions for Liabilities and Charges	16	**(289,558)**	(226,862)
Net Assets		**227,966**	366,780
Capital and Reserves			
Called-up share capital	17	**319,738**	319,738
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**(100,865)**	38,478
Shareholders' Funds - equity interests		**223,921**	363,264
Minority Interests	18	**4,045**	3,516
		227,966	366,780

T. Mulcahy
Chairman

R. Hynes
Director

Approved by the Board of Directors on 28 March 2002.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2001

	Notes	2001 €000	2000 €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

R. Hynes
Director

Approved by the Board of Directors on 28 March 2002.

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2001

	Notes	2001 €000	2000 €000
Net cash inflow from Operating Activities	19A	**42,070**	157,744
Returns on Investments and Servicing of Finance	19B	**15,955**	8,610
Taxation		**(4,824)**	(5,164)
Capital Expenditure and Financial Investment	19B	**(231,332)**	(116,013)
Acquisitions and Disposals	19B	**8,245**	29,502
Cash (outflow)/inflow before use of liquid resources and financing		**(169,886)**	74,679
Management of Liquid Resources	19C	**233,665**	(51,159)
Financing - Decrease in debt	19B	**(18,720)**	(38,210)
Increase/(decrease) in cash in year		**45,059**	(14,690)
Reconciliation of net cash flow to movement in net funds	19C		
Increase/(decrease) in cash in year		**45,059**	(14,690)
Cash outflow from decrease in debt and lease financing		**18,720**	38,210
Cash (outflow)/inflow from change in liquid resources		**(233,665)**	51,159
Change in net funds resulting from cash flows		**(169,886)**	74,679
Other movements		**368**	(1,363)
Movement in net funds in year		**(169,518)**	73,316
Net funds at 01 January		**235,551**	162,235
Net funds at 31 December		**66,033**	235,551

OTHER CONSOLIDATED STATEMENTS

YEAR ENDED 31 DECEMBER 2001

	2001 €000	2000 €000
Statement of Total Recognised Gains and Losses		
(Loss)/gain for the year	**(139,923)**	71,626
Other movements, principally currency translation adjustments		
Profit and Loss account	**580**	1,672
Total recognised (losses)/gains for the year	**(139,343)**	73,298
Reconciliation of Movements in Shareholders' Funds		
Balance, beginning of year	**363,264**	289,966
Total recognised (losses)/gains for the year	**(139,343)**	73,298
Balance, end of year	**223,921**	363,264
Movements on Profit and Loss Account		
Balance, beginning of year	**38,478**	(34,820)
(Loss)/profit retained for year	**(139,923)**	71,626
Currency translation and other movements	**580**	1,672
Balance, end of year	**(100,865)**	38,478

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 2000 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 schemes, the majority of which are target benefit pension schemes.

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	Residual value
Flight Equipment:	(Years)	(%)
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 2001

1. Survival Plan and Exceptional Items

After a number of years of unprecedented growth in air traffic, the economic and industrial environment in which Aer Lingus operates changed dramatically in 2001. The outbreak of Foot and Mouth disease during the peak booking season for summer leisure travel, combined with a sharp downturn in the IT sector, significantly affected air traffic into and out of Ireland. The events of September 11 in the United States, combined with the worsening economic conditions, have also had an extremely negative effect on the global airline industry.

Aer Lingus took prompt action following these events to reduce costs, conserve cash, reduce capacity and stimulate demand through fare reductions.

In October 2001, Aer Lingus management prepared a Survival Plan to overcome these trading difficulties and to restructure the Airline's operations to achieve long-term viability and growth. The key aspects of the Plan are as follows:

- Creating a more efficient business model;
- Significant cost reduction programme;
- Reduction in staffing levels by one third;
- Restructuring staffing activities to meet the new business model; and
- Radical changes in work practices in all areas.

Significant progress has been made to date in implementing the Survival Plan. Voluntary severance and early retirement programmes have been introduced to achieve the required staff reductions. A large number of staff have availed of these programmes and departed the Airline in early 2002. Most of the work practice changes have been agreed. Management is confident that the Survival Plan can be implemented successfully and in full, within the required timeframe.

In assessing the adequacy of the financial resources available, the Directors have considered the significant progress to date in implementing the Survival Plan, the cash position at 31 December 2001 (Note 13), and the financing activities undertaken subsequent to the year-end. These financing activities include the sale of two surplus aircraft, the release of certain restricted deposits and the negotiation of a new working capital facility. Having due regard to the above and based on a review of the projected cash flow information covering the twelve month period from the date of the approval of these accounts, the Directors are satisfied that adequate financial facilities will be available and accordingly, the Directors consider it appropriate to prepare these accounts on a going concern basis.

The following exceptional costs arise in 2001 primarily as a result of the measures included in the Survival Plan:

	2001 €000	2000 €000
Costs of Fundamental Restructuring		
- Employee severance and early retirement programme (a)	**(103,214)**	-
- Aircraft provisions (b)	**(19,885)**	-
- Strategic alliance (c)	**-**	(6,170)
- Initial Public Offering (d)	**-**	(4,821)
	(123,099)	(10,991)
Profit/(Loss) on Disposal of Fixed Assets	**744**	(1,510)
Employee Participation (e)	**-**	4,416
Discontinued Operations		
Profit on Exit from Non-Core Activities		
- AerFi Group plc (f)	**-**	11,606
- Ground and cargo handling	**-**	1,661
- Aircraft maintenance (g)	**6,940**	-
	6,940	13,267
Net exceptional items before tax	**(115,415)**	5,182
Tax on exceptional items	**11,349**	364
Net exceptional items after tax	**(104,066)**	5,546

(a) In November 2001, the Airline announced a voluntary severance and early retirement programme which is an integral part of the Airline's Survival Plan. 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 is €103.2 million.

(b) As part of the Airline's Survival Plan, the fleet is being reduced through the return of aircraft to lessors, the deferral of aircraft previously ordered and the sale of aircraft. Provisions have been made in respect of these measures.

(c) Aer Lingus was elected as a member of the **one**world alliance in December 1999 and the costs incurred in becoming a member were written off as an exceptional item in 2000.

(d) Costs incurred by the Group in 2000 in preparing for an Initial Public Offering were written off as an exceptional item in 2000.

(e) Following the Irish Government announcement in 1999 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 amount remaining to be allocated, €5.99 million, was charged as an exceptional item in the 1999 accounts. As an ESOP had not been put in place at 31 December 2000, the terms of the existing Employee Share Participation Scheme continued in effect for 2000 and the employees' share of the profit for 2000 (€4.42 million) was charged against the 2000 operating profit, with an equivalent revision made to the exceptional item.

(f) During 2000 the Group sold its remaining shareholding in AerFi Group plc.

(g) This amount relates to debts recovered in 2001 which were written off in prior years.

2. Turnover and Operating Profit

	2001	2000		
	Continuing	Continuing before exceptional items	Exceptional items	Total
	€000	€000	€000	€000
Turnover				
Passenger and Cargo Services	**1,347,315**	1,372,419	-	1,372,419
Cost of Sales	**1,093,205**	970,258	-	970,258
Gross Profit	**254,110**	402,161	-	402,161
Operating Expenses				
Selling and Marketing	**200,332**	213,506	-	213,506
Administrative	**104,143**	108,724	-	108,724
Employee Participation	**-**	4,416	(4,416)	-
	304,475	326,646	(4,416)	322,230
Operating (Loss)/Profit	**(50,365)**	75,515	4,416	79,931

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.

3. Interest Payable and Similar Charges

	2001	2000
	€000	€000
On bank loans, overdrafts and other loans:		
- repayable within five years, by instalments	**2,850**	1,595
Finance lease interest	**24,667**	27,925
Interest on irredeemable capital	**254**	254
Other interest, principally on loans		
- repayable after more than five years	**345**	1,487
Finance charge on discounted provision	**3,035**	3,339
	31,151	34,600

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

	2001 €000	2000 €000
(Loss)/Profit on ordinary activities before taxation is stated after charging (crediting):		
Depreciation of tangible fixed assets *		
- owned	**66,039**	23,380
- held under finance leases	**23,681**	30,563
Operating lease rentals payable		
- plant and machinery	**463**	166
- aircraft	**120,781**	118,445
- property	**11,242**	9,453
Operating lease rentals receivable	**(2,858)**	(1,326)
Auditors' remuneration	**207**	180
Payment received from Irish Government as compensation for losses suffered due to closure of US airspace following events of 11 September 2001	**(6,667)**	-
Net losses on foreign currency borrowings less deposits	**-**	3,793

*including €7.1 million (2000: €3.1 million) 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 2001 amounted to €nil (2000 : €38.2m).

5. Directors' Emoluments

	2001 €000	2000 €000
Fees	**129**	72
Other emoluments (including pension contributions)	**1,027**	551
Pension payments to former director	**89**	84
Payment to former chief executive on termination of his contract of employment	**656**	-
	1,901	707

The annual remuneration of Mr W Walsh as chief executive of Aer Lingus Group plc as at 31 December 2001 is as follows:

		€000
Fees		**-**
Basic salary		**254**
Performance related payments in 2001		**-**
Superannuation:	standard company benefits	**16**
	additional benefits provided to the chief executive	**47**
Other benefits		**41**
Total annual cost		358

6. Staff Costs

The average number of persons employed by the Group in the financial year was 6,833 (2000: 6,624) and their associated payroll costs were as follows:

	2001 €000	2000 €000
Wages and salaries	**266,524**	236,772
Social welfare costs	**31,906**	26,920
Pension costs (Note 21)	**15,601**	12,815
	314,031	276,507
Employee Share Participation Scheme (Note 20)	**-**	4,416
	314,031	280,923

7. Taxation

The tax charge for the year comprises:

	2001 €000	2000 €000
Current tax		
Ireland		
Corporation tax	**-**	5,165
Revision of previous years' provisions	**(2,000)**	-
Overseas		
Corporation tax	**189**	1,297
Revision of previous years' provisions	**(539)**	-
Total current tax	**(2,350)**	6,462
Deferred tax		
Origination and reversal of timing differences	**(20,829)**	11,938
Effect of discount	**5,438**	(1,529)
Total deferred tax	**(15,391)**	10,409
	(17,741)	16,871

The differences between profit on ordinary activities multiplied by the standard Irish corporation tax rate of 20% (2000: 24%) and the current tax charge for the year are:

	2001 €000	2000 €000
(Loss)/profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 20% (2000: 24%)	**(31,414)**	21,384
Effects of:		
Expenses not deductible for tax purposes	**192**	2,414
Capital allowances in excess of depreciation	**(3,800)**	130
Movement in tax losses	**17,080**	(8,749)
Movement in provisions	**16,676**	(3,318)
Differences in tax rates	**1,455**	(5,399)
Revision of previous years' provisions	**(2,539)**	-
Current tax (credit)/ charge for year	**(2,350)**	6,462

8. (Loss)/Earnings per share

	2001	2000
Weighted average number of shares in issue ('000)	**255,790**	255,790
(Loss)/profit for the year (€000)	**(139,923)**	71,626
(Loss)/earnings per share (cent)	**(54.7)c**	28.0c
(Loss)/profit for the year from continuing operations before exceptional items (€000)	**(35,857)**	66,080
(Loss)/earnings per share – continuing operations before exceptional items (cent)	**(14.0)c**	25.8c

9. Tangible Assets

	Flight Equipment €000	Property Freehold/ Leasehold €000	Ground Equipment €000	Other Equipment €000	Total €000
Cost					
Beginning of year	787,762	47,783	55,801	58,183	949,529
Additions	195,702	5,742	4,171	15,921	221,536
Disposals	(8,578)	(13)	(477)	(1,729)	(10,797)
End of year	974,886	53,512	59,495	72,375	1,160,268
Depreciation					
Beginning of year	244,997	27,908	32,164	30,220	335,289
Transferred from aircraft maintenance provisions (note 16b)	24,888	-	-	-	24,888
Charge for year	62,045	2,640	3,742	21,293	89,720
Disposals	(8,578)	(13)	(468)	(1,729)	(10,788)
End of year	323,352	30,535	35,438	49,784	439,109
Net Book Value					
End of year	651,534	22,977	24,057	22,591	721,159
Beginning of year	542,765	19,875	23,637	27,963	614,240
Leased assets included in the above:					
Net book value - end of year	371,123	-	-	-	371,123
Net book value - beginning of year	386,281	-	-	-	386,281

10. Financial Assets

Group

	Unquoted investments €000
At beginning of year	922
Additions during year	288
Amount provided for during year	(1,188)
Transferred to other debtors	(22)
At end of year	-

Company

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

A list of the Principal Group Companies at 31 December 2001, their principal activities, country of incorporation, and the Group holding percentage is set out in Note 24.

11. Stocks

	2001 €000	2000 €000
Consumable aircraft spares	**3,143**	2,320
Other stocks	**3,540**	5,161
	6,683	7,481

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

12. Debtors

	2001 €000	2000 €000
Amounts falling due within one year:		
Trade debtors	**60,596**	59,695
Other debtors	**37,831**	40,315
Prepayments and accrued income	**8,442**	9,960
Value Added Tax	**1,604**	4,033
	108,473	114,003
Amounts falling due after more than one year:		
Other debtors	**-**	9,281
	108,473	123,284

13. Cash, short-term deposits and liquid resources

	2001 €000	2000 €000
Free cash:		
Cash and demand deposit balances	**36,150**	15,691
Other deposit balances and liquid resources	**133,324**	365,765
	169,474	381,456
Restricted cash:		
Restricted cash deposit balances held to repay certain finance lease obligations (a)	**408,617**	417,661
Other restricted deposits (b)	**48,462**	26,137
	457,079	443,798
	626,553	825,254

(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

	2001 €000	2000 €000
Bank loans and overdrafts (Note 15)	**15,450**	40,614
Finance lease obligations (Note 15)	**88,469**	91,736
Trade creditors	**51,192**	63,723
Accruals and deferred income	**140,702**	141,539
Passenger and Cargo sales in advance	**130,513**	127,931
Taxation and Social Welfare (a)	**17,384**	19,686
Other creditors	**45,033**	34,957
	488,743	520,186

(a) Taxation and Social Welfare creditors include:		
PAYE	**3,303**	716
Social Welfare	**2,828**	543
Overseas taxation	**11,253**	11,641
Corporation tax	**-**	6,786
	17,384	19,686

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

		2001 €000	2000 €000
Loan capital			
Repayable	- within one year (Note 14)	**15,450**	40,614
	- from one to two years	**8,721**	9,742
	- from two to five years	**29,960**	26,371
Irredeemable capital (a)		**6,349**	6,349
		60,480	83,076
Included in Creditors falling due within one year (Note 14)		**(15,450)**	(40,614)
		45,030	42,462
Finance lease obligations			
Repayable	- within one year (Note 14)	**88,469**	91,736
	- from one to two years	**32,495**	86,657
	- from two to five years	**142,894**	105,703
	- after five years	**236,182**	222,531
		500,040	506,627
Included in Creditors falling due within one year (Note 14)		**(88,469)**	(91,736)
		411,571	414,891
		456,601	457,353

(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 (2000 - 4% per annum).

(b) Loan capital and lease obligations of €546 million (2000 - €546m) are secured on various assets of the Group, principally aircraft.

(c) Loan capital and lease obligations of €316 million (2000 - €269m) at 31 December 2001 are denominated in various foreign currencies, including US Dollar, Sterling and Yen.

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	20,482	73,512	55,259	17,144	7,556	24,686	28,223	226,862
Provided during year	98,790	46,336	-	(15,391)	28,422	820	2,926	161,903
Finance charge on discounted provision	-	-	3,035	-	-	-	-	3,035
Utilised during year	(7,959)	(25,394)	(8,723)	-	(33,257)	(703)	(1,430)	(77,466)
Transfers to fixed assets	-	(24,888)	-	-	-	-	-	(24,888)
Translation adjustment	-	(113)	-	-	248	174	(197)	112
End of year	111,313	69,453	49,571	1,753	2,969	24,977	29,522	289,558

(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 represents 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 seven 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:

	2001 €000	2000 €000
Accelerated capital allowances	**41,472**	39,300
Tax losses carried forward	**(18,891)**	(7,177)
Provisions	**(19,069)**	(7,782)
Undiscounted provision for deferred tax	**3,512**	24,341
Discount	**(1,759)**	(7,197)
Discounted provision for deferred tax	**1,753**	17,144
Provision at beginning of year	**17,144**	6,735
Deferred tax (credit)/charge in profit and loss account for year	**(15,391)**	10,409
Provision at end of year	**1,753**	17,144

17. Called-Up Share Capital

	2001 €000	2000 €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

	2001 €000	2000 €000
Beginning of year	**3,516**	3,167
Share of retained profit for year	**592**	601
Other movements	**(63)**	(252)
End of year	**4,045**	3,516

19. Consolidated Cash Flow Statement

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

	2001 €000	2000 €000
Operating (loss)/profit before exceptional items	**(50,365)**	75,515
Depreciation of tangible fixed assets	**82,619**	50,857
Movement in provisions	**(2,253)**	2,167
Decrease/(increase) in stocks	**799**	(830)
Increase in debtors	**(1,581)**	(8,036)
Increase in creditors	**8,869**	43,763
Loss on exchange	**5,148**	3,793
IPO and strategic alliance expenditure	**(1,166)**	(9,485)
Net Cash Inflow from Operating Activities	**42,070**	157,744

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

	2001 €000	2000 €000
Returns on investments and servicing of finance		
Interest received	**43,517**	40,512
Interest paid	**(2,427)**	(3,440)
Finance lease interest paid	**(25,135)**	(28,462)
Net cash inflow for returns on investments and servicing of finance	**15,955**	8,610
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(231,108)**	(118,921)
Purchase of financial fixed assets	**(288)**	(922)
Sale of tangible fixed assets	**64**	3,830
Net cash outflow for capital expenditure and financial investment	**(231,332)**	(116,013)
Acquisitions and disposals		
Sale of financial fixed assets:		
Equant NV	-	6,847
AerFi Group plc	-	11,606
Handling activities	-	11,049
Maintenance activities	**6,940**	-
Other	**1,305**	-
Net cash inflow from acquisitions and disposals	**8,245**	29,502
Financing		
Capital element of finance leases	**(14,808)**	(16,738)
New loan capital	**3,936**	9,631
Repayment of loan capital	**(1,492)**	(27,953)
Increase in restricted deposits	**(6,356)**	(3,150)
Net cash outflow from financing	**(18,720)**	(38,210)

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 01 €000	Cash Flow €000	Exchange Movement €000	Net Funds (Debt) 31 Dec 01 €000
Cash				
Cash in hand, at bank	15,691	20,379	80	36,150
Overdrafts	(32,645)	24,680	452	(7,513)
	(16,954)	45,059	532	28,637
Finance				
Debt due within one year	(7,969)	32	-	(7,937)
Debt due after one year	(42,462)	(2,476)	(92)	(45,030)
Finance leases	(506,627)	14,808	(8,221)	(500,040)
Restricted deposits	443,798	6,356	6,925	457,079
	(113,260)	18,720	(1,388)	(95,928)
Liquid Resources				
Other cash deposits and liquid resources	365,765	(233,665)	1,224	133,324
Total	235,551	(169,886)	368	66,033

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.

No profit share entitlement arises in respect of 2001. 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)
2001 (in respect of 2000)	-	(4.4)
Balance remaining to be allocated	Nil	1.6

21. Pensions

The Group operates a number of externally funded target benefit 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. 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 €15.6 million (2000 - €12.8m), 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 2001 the Group had capital commitments as follows:

	2001 €000	2000 €000
Contracted for but not provided		
- Aircraft and equipment *	**206,878**	375,543
- Other	**968**	26,064
Authorised but not contracted for	**25**	2,057
	207,871	403,664

*Of the aircraft and equipment capital commitments of €206.9 million, €69.7million relates to 2002 and €137.2 million relates to 2003 and thereafter. In regard to the former, the Group reached agreement with the aircraft manufacturers subsequent to the balance sheet date to defer the delivery of these orders post 2002.

(b) Lease commitments

At 31 December 2001 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	2,118	16,641	306
Between two and five years	1,035	80,266	1,770
After five years	766	7,166	213
	3,919	104,073	2,289

(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.

(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 2001 are forward purchases of US Dollars 236 million and Sterling £30 million (2000: US Dollars 183m and Sterling £44m) and forward sales of Sterling £114 million (2000: Sterling £157m).

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.

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.