ANNUAL REPORT 04

FastPass

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Low Fares. Way Better.

FINANCIAL HIGHLIGHTS

for the year ended 31 December 2004

		2004 € million	2003 € million	2002 € million
Profit and loss				
Turnover - Continuing operations		**906.8**	888.3	958.6
Operating costs		**799.8**	805.3	894.8
Operating profit	(1)	**107.0**	83.0	63.8
Operating margin (%)		**11.8%**	9.3%	6.7%
EBITDAR	(2)	**216.8**	186.9	176.8
Net exceptional costs		**(102.5)**	-	(25.7)
Profit for the year		**1.2**	69.2	35.3
Earnings per share (€ cent)		**0.5c**	27.1c	13.8c
Earnings per share before net exceptional costs (€ cent)		**34.1c**	27.1c	21.3c
Balance Sheet				
Shareholders' funds		**366.2**	321.9	255.6
Free cash		**559.5**	384.8	367.3
Net cash and liquid resources	(3)	**318.7**	226.2	154.9
Key statistics - Continuing operations				
Passengers flown (scheduled)		**6,959,356**	6,594,650	6,210,891
Passenger load factor (flown %)		**82%**	81%	78%
Average flown fare - Europe (€)		**79.70**	82.52	92.32
Average sector length - Europe (kms)		**813**	727	639
Average flown fare - Transatlantic (€)		**252.67**	250.97	316.04
Average sector length - Transatlantic (kms)		**5,532**	5,517	5,548
Average number of aircraft operated		**31.7**	32.9	32.8
Average number of employees		**3,906**	4,281	4,650
Internet sales at year end		**66%**	50%	28%

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

CONTENTS

CHAIRMAN'S STATEMENT

I am pleased to report a further year of progress by Aer Lingus.

The operating profit (before employee profit share) for 2004 was €107.0 million, an increase of 28.9% over the 2003 level of €83.0 million. The operating margin for 2004 was 11.8%, up from 9.3% in 2003.

Net exceptional charges in 2004 amounted to €102.5 million, the most significant element of which is the cost of the voluntary severance and early retirement programme launched as part of the implementation of the Airline's three year business plan.

After taking account of the employee profit share, interest, exceptional charges and tax, the profit for the year was €1.2 million.

The balance sheet recorded a further improvement, with shareholders funds increasing by €44.3 million to €366.2 million and net cash and liquid resources growing by €92.5 million to €318.7 million.

2004 recorded a number of significant developments in the implementation of the Airline's low fares strategy. In April, the Airline launched FastPass, its self service check-in facility, at Dublin Airport. This has proved very popular with our customers, with more than one million having used it to dramatically shorten their check-in times. In July, the Board approved a three year business plan which builds on the progress made so far. This plan, which is in the course of being implemented, further simplifies the business, takes significant costs out of the operation and seeks to improve productivity. In September, the Airline took radical action on its fares structure by eliminating all restrictions and introducing one way fares on all routes. Aer Lingus is the first to do this on transatlantic flights and this pioneering approach has been very well received by passengers. Throughout 2004, the Airline has continued to enhance aerlingus.com, its internet sales channel. By the end of 2004, 66% of bookings were being conducted through aerlingus.com, a dramatic advance on the 8% in 2001.

These actions are geared towards reducing costs and passing on these cost reductions to our customers through lower fares. The message to the marketplace is simple - Aer Lingus intends to provide low fares to customers with a service that is way better than the competition.

Aer Lingus has also continued to expand its route network and now provides its customers with 65 routes to and from Ireland, compared with 42 in 2001. Constrained by the requirements of the Ireland/US bilateral agreement on the transatlantic, most of the Airline's route development has been on Europe. We are satisfied that an opening up of the transatlantic market would provide further low fares expansion opportunities for the Airline.

During 2004, Aer Lingus commenced the transition to its new A320 shorthaul fleet. Of the seventeen new A320 aircraft ordered in 2003, 7 were delivered in 2004, with the remainder due for delivery in 2005. When this fleet renewal is complete in January 2006, the average age of the Airline's shorthaul fleet of 27 aircraft will be under three years.

An examination of the Airline's long haul fleet requirements is ongoing in the context of the Airline's current fleet of 7 A330 aircraft and the opportunities for expansion of its route network from Ireland. Decisions to replace and expand the long haul fleet are heavily dependent on funding clarity and, in this context, I welcome the intention of the Minister for Transport to provide clarity on this matter shortly.

While the Airline has performed well in 2004, competition continues to increase. The Airline has made significant progress in reducing its costs, but so also have the competitors. It is clear that the customers, whether they use our passenger or cargo services, want low fares. To enable us to continue to respond to these demands, we will have to continue to bring our costs down and seek ways to become more efficient. The business plan approved in July 2004 addresses these issues and the focus of management is on its full implementation.

CHAIRMAN'S STATEMENT continued

Executive Management Team
Front row (L-R) Greg O'Sullivan, John Sharman, Liz White
Back row (L-R) Brian Wheatley, Niall Walsh, Dick Butler

Whilst the Airline's policy on fuel hedging has sheltered it from the full impact of rising fuel prices in 2004, the continued inexorable rise in fuel prices will be reflected in increasing cost in 2005/6. Facing these rising costs, the Airline must continue to drive for simplicity and productivity.

2004 also saw an increase in the employee shareholding to 14.9% from its previous level of 4.76%. This increase was agreed as part of the Airline's 2001 Survival Plan and I welcome the opportunity this gives for employees to share directly in the future prosperity of the Airline.

2004 has seen significant change to the Board and senior management. My predecessor, Tom Mulcahy, resigned from the Board in May 2004. He chaired the Airline through very difficult times in 2001/2 and the subsequent foundation of our current success. Two Board members, Willie Walsh (Chief Executive) and Brian Dunne (Chief Financial Officer), together with Seamus Kearney (Chief Operations Officer) submitted their resignations from the Airline's employment in November 2004. I thank all four for their contributions to and leadership of the Airline, creating a platform for a robust and commercially viable air transport company. I would like to welcome Sean FitzPatrick and Anne Mills to the Board, both of whom were appointed in March 2004. I thank both of them and all other members of the Board for their help and effort in this challenging year.

I would like to thank the Minister for Transport, Martin Cullen T.D., his predecessor Seamus Brennan T.D., and the officials in the Departments of Transport and Finance for their assistance during 2004.

The successes and progress made during the year are of course testament to the efforts of all the management and staff of the Airline, to whom I pass on the congratulations and thanks of the Board.
2005 will be another challenging year as the Airline implements the drive for increased productivity inherent in the Business Plan, which can be the only foundation to set the basis for potential future growth.

John Sharman
Chairman

DIRECTORS

Willie Clarke
Willie Clarke was appointed to the Board as an elected Director in May 1998 and was re-elected in 2002. He is a Senior Cargo Agent in Dublin Cargo Terminal.

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

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

Sean FitzPatrick
Sean FitzPatrick was appointed to the Board as a Director in March 2004. He is a council member of the Institute of Chartered Accountants in Ireland and past president of the Irish Bankers Federation. He is currently Chairman of Anglo Irish Bank Corporation plc.

Anne Mills
Anne Mills was appointed to the Board in March 2004. She is a Civil Engineer and is also a member of the Building Regulations Advisory Board.

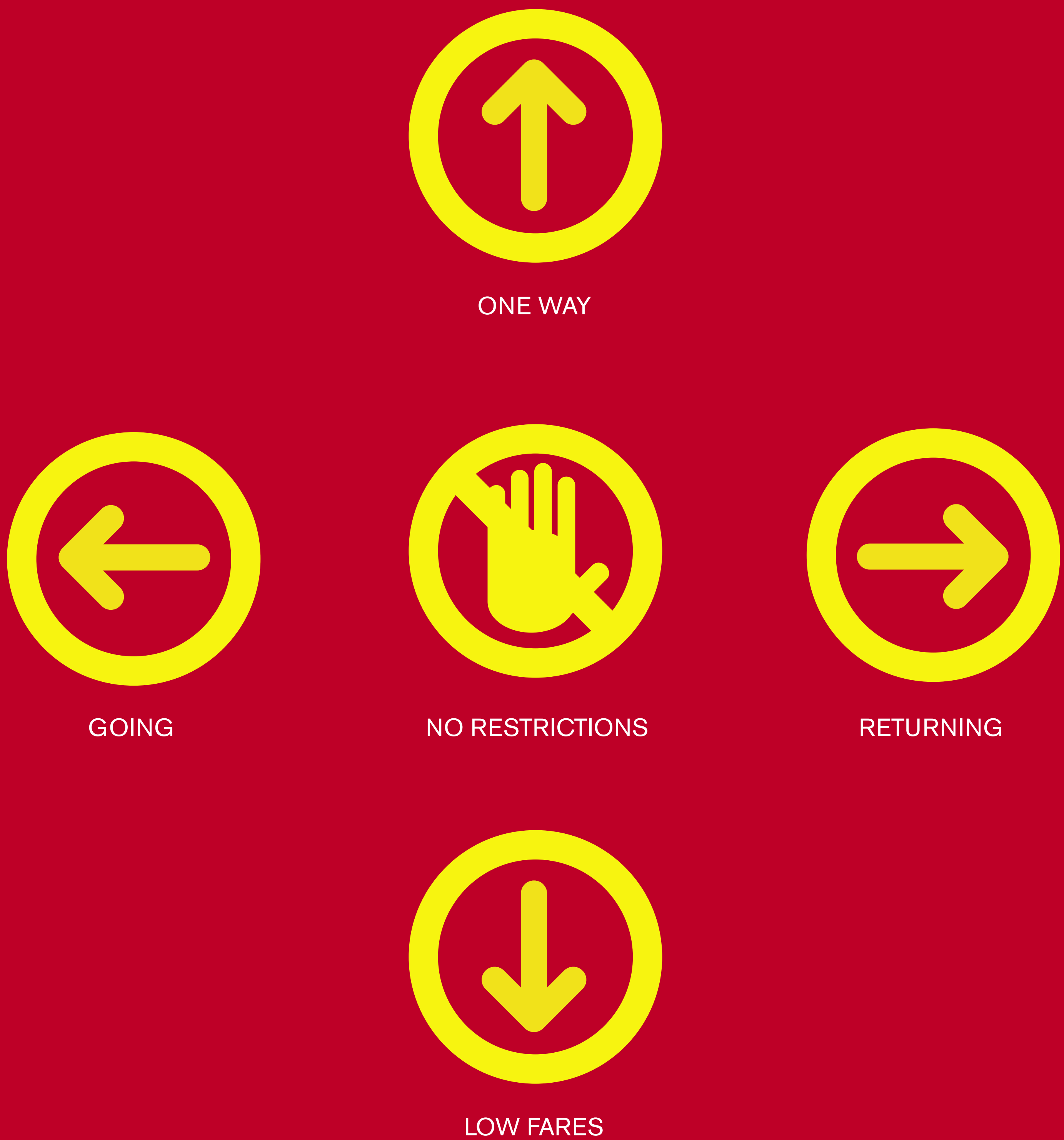
Sean Murphy
Sean Murphy was appointed to the Board as an elected Director in July 2002. He is Manager Operations Strategy with the Flight Services Department.

Nora O'Reilly
Nora O'Reilly was appointed to the Board as an elected Director in July 2002. She is a Senior Cabin Crew member in Aer Lingus and was Chairperson of the Cabin Crew Committee from May 1998 to March 2002. She is also a member of the State and Enterprise Division of IMPACT and the Central Executive Council. She was elected as Honorary Secretary to the IMPACT Trade Union's Central Executive Council in May 2004.

John Sharman
John Sharman was appointed Chairman in July 2004 and Executive Chairman in January 2005. He is a founding shareholder of Spectrum Capital Ltd., a UK company specialising in financing for the aviation industry. Mr Sharman is a fellow of the Royal Aeronautical Society and is a member of the UK Department of Trade and Industry Aerospace Committee.

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

ONE WAY FARES



OPERATING AND FINANCIAL REVIEW

Overview

Aer Lingus recorded an operating profit on continuing activities (before employee profit share) of €107.0 million compared with €83.0 million in 2003.

The profit for the year, after net exceptional costs of €102.5 million, amounted to €1.2 million (2003: €69.2 million).

At year-end, as a result of the profit for the year, currency translation and the issue of shares, shareholders' funds had increased to €366.2 million (2003: €321.9 million) and net cash had increased to €318.7 million (2003: €226.2 million).

Operating Review

The general economic and industrial environment in which Aer Lingus operates improved in 2004 in three out of four of its key markets. The Irish, United States of America and the United Kingdom economies returned to satisfactory growth rates, while Continental European economies remained generally weak. However, conditions in the aviation industry continue to be defined by increased competition and the impact of high oil prices.

Aer Lingus continued responding by aggressive promotion in all markets, offering lower fares and generating an increase in passenger numbers over 2003. This was achieved through a single- minded control of costs during 2004.

In order to support and sustain low fares while at the same time committing to a growth strategy, the Airline adopted a business plan in summer 2004 incorporating pioneering fare policy revisions and cost reductions.

Turnover
The Aer Lingus turnover on continuing operations increased by 2.1% to €906.8 million in 2004.

Scheduled Passengers
Passengers flown (scheduled) increased by 5.5% to 7.0 million in 2004. Aircraft utilisation improved with the passenger load factor increasing to 82% (2003: 81%). Our continuous strategy of reducing prices resulted in further decreases in average yields.

Total traffic on European routes increased by 5.2% compared to 2003. Within the European route network capacity was realigned from the United Kingdom to Continental Europe to facilitate the opening of new routes. Reflecting this, traffic levels on the London and UK Provincial routes were 4.8% and 8.6% respectively behind 2003 levels whereas traffic on the Continental European network was 25.8% ahead of 2003, following an increase in the number of routes by fourteen to forty in 2004. A total of twenty-four new European routes have been introduced since 2001, with a further eight announced for 2005. The average flown fare in Europe has been reduced by 23% from €103.10 in 2001 to €79.70 in 2004, while over the same period the average sector length has increased by 36% from 597 kms to 813 kms.

Transatlantic traffic increased by 7.2% to 1.2 million passengers in 2004. The average Transatlantic flown fare has been reduced by 22.9% from €327.77 in 2001 to €252.67 in 2004. The weakening dollar was a significant factor in this reduction. Aer Lingus continues to be the market leader on Transatlantic routes into and out of Ireland and this market accounted for approximately 39% of 2004 scheduled passenger revenue.

Cargo
Slightly higher customer demand in the United States, the rationalisation of Aer Lingus' European cargo activities and the adverse impact of a weaker US dollar on yields were the main contributors to total cargo carried on Aer Lingus services, excluding mail, decreasing by 3% to 27,500 tonnes and to total cargo revenue falling by 4.2% compared to last year.

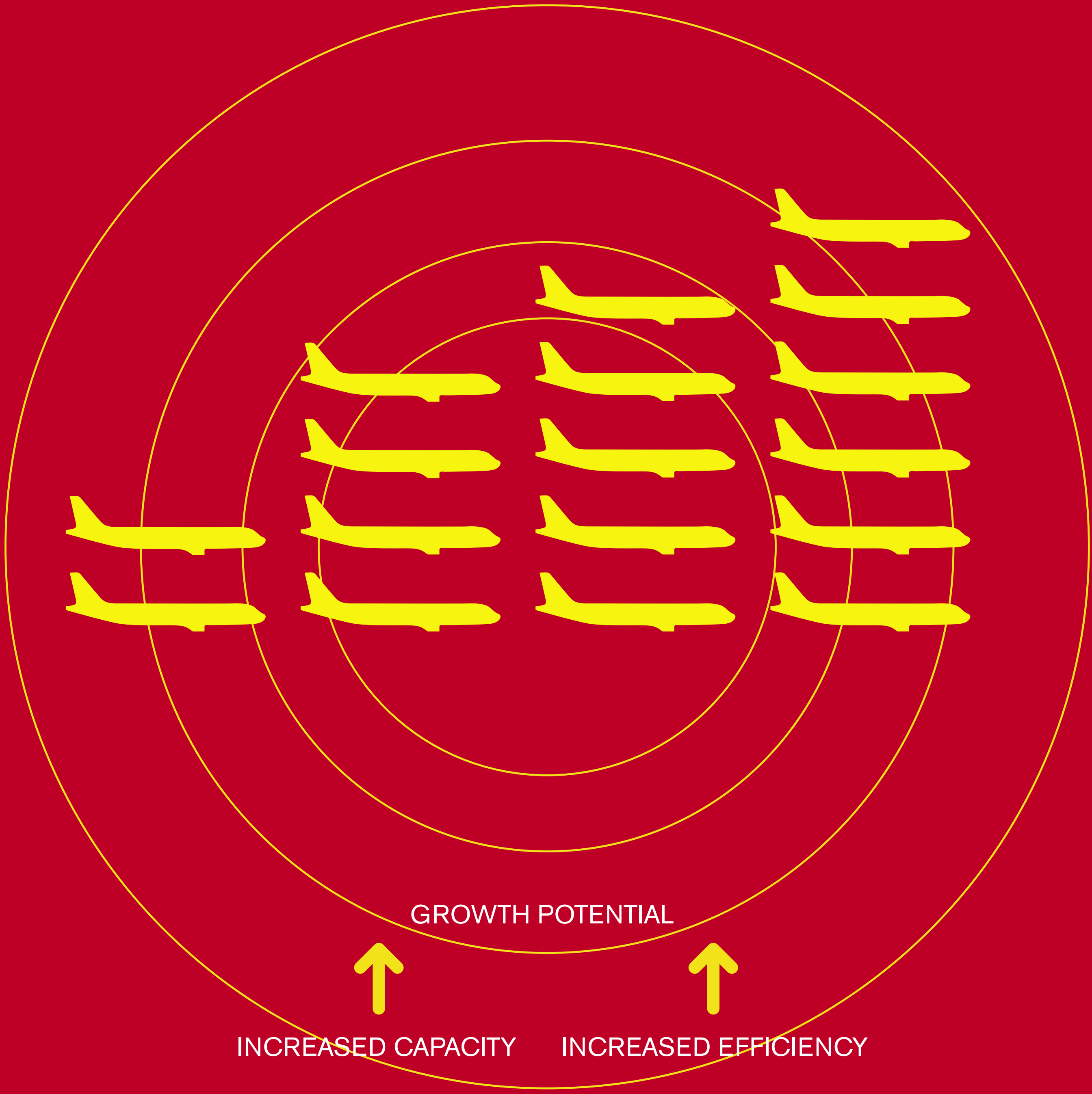
Tonnage carried on the transatlantic network increased by 800 tonnes (4.0%) and tonnage on the European network decreased by 1,750 tonnes (22.1%).

Reflecting the weaker dollar, Transatlantic scheduled revenue fell by 8.8%. European scheduled revenues fell by 17.8%, owing to reduced volume. The Transatlantic network generated 83% of scheduled cargo revenue for 2004.

Costs
Costs on continuing operations were reduced by €5.5 million (1%) to €799.8 million in 2004, despite the increase in oil prices. This means that costs on continuing operations have been reduced by €350 million or 30% since 2001.

Payroll costs increased by 1.8% in 2004. This reflects an increase of 12.3% in average staff cost to €65,600, offset by a further reduction of 375 (8.8%) in average staff numbers to 3,906. Fuel costs increased by 18.1% compared with the previous year. While oil prices increased by approximately 40% year on year, the Company's hedging policy reduced the impact of the sudden price increase on the results for the year. A reduction of 29.6% in distribution costs in 2004 was a significant contributor to the cost performance for the year. The key element in this is the drive to maximise direct bookings through the Aer Lingus internet site aerlingus.com, which at the year-end accounted for 66% of all sales. Sales through the internet only accounted for 8% of sales in 2001.

7 NEW AIRBUS A320s ARRIVED 2004



10 NEW AIRBUS A320s ARRIVING 2005

OPERATING AND FINANCIAL REVIEW CONTINUED

Operating Profit
The operating profit (before employee profit share) on continuing operations increased by 28.9% to €107.0 million in 2004. The operating margin was 11.8% (2003: 9.3%).

The EBITDAR margin on continuing operations increased from 21.0% in 2003 to 23.9% in 2004.

Fleet
Aer Lingus operated 31.7 aircraft on average in 2004 (2003: 32.9). The summer peak fleet consisted of 26 aircraft on European routes and 7 on Transatlantic routes.

The transition to an all Airbus A320 family European fleet commenced during 2004. By the year-end delivery had been taken of seven new A320s, of which four were purchased from Airbus and three were acquired on operating lease. A further ten new A320s will be delivered during 2005; three will be purchased from Airbus and seven will be acquired on operating lease.

The B737 aircraft are leaving the fleet as the A320s are being delivered in 2004 and 2005. Seven of the B737s were sold in January 2004 and are being leased back for periods of up two years to facilitate the transition. The remaining four B737s have since been sold; three in 2004 and one in January 2005.

The transition to an all Airbus A320 family European fleet will be completed by January 2006. At this time the European fleet will consist of six A321s and twenty-one A320s and will have an average age of less than three years. Purchase options are available for a further ten A320 aircraft.

Aer Lingus currently operates a long haul fleet of seven A330 aircraft comprising four A330-300s and three A330-200s. Four of the aircraft are held on operating leases.

Further work was completed on the long haul fleet review during the course of 2004. The review seeks to identify a medium to long-term fleet strategy having regard to the age profile of the existing fleet of seven A330s and potential market opportunities both on the Transatlantic and to the east and south from Ireland.

There has been significant engagement with both aircraft and engine manufacturers, particularly focused on the evaluation of new Boeing B787 and Airbus A350 long haul aircraft, which are expected to be available in the 2008-2011 timeframe.

During 2004, the lease periods on two A330-300 aircraft were extended. This provides certainty on the availability of capacity, while maintaining flexibility in respect of the overall long haul fleet strategy. The lease terms on a further two A330s expire in 2006.

Work continues on finalising the scale of opportunities and the specification of Aer Lingus' long haul aircraft requirements. The objective is to complete the review as early as possible in 2005.

At the year-end, fleet expenditure commitments included contracts for three A320s for delivery in 2005.

Financial Review

Profit before Taxation
The operating profit (before employee profit share) on continuing operations was €107.0 million in 2004 (2003: €83.0 million).

The amount due in 2004 under the employee profit sharing scheme was €10.7 million, being 10% of the profit before exceptional items and taxation for the year of €114.3 million subject to an aggregate maximum of €25.4 million. During 2004, the aggregate maximum of €25.4 million was reached and the profit share was therefore restricted to €10.7 million.

Exceptional costs of €102.5 million (before taxation) were incurred in 2004 – a provision of €97.9 million for the estimated cost of the employee severance and early retirement programme launched in 2004, €6.1 million for the premium at which shares were issued to the Employee Share Ownership Trust ("ESOT") in 2004, less profits of €1.5 million on the sale of fixed assets and non-core activities. Note 2 to the accounts contains further details of the make-up of this amount.

After net interest income of €7.3 million in 2004 (2003: €5.2 million), the profit on ordinary activities before taxation amounted to €1.1 million (2003: €79.4 million).

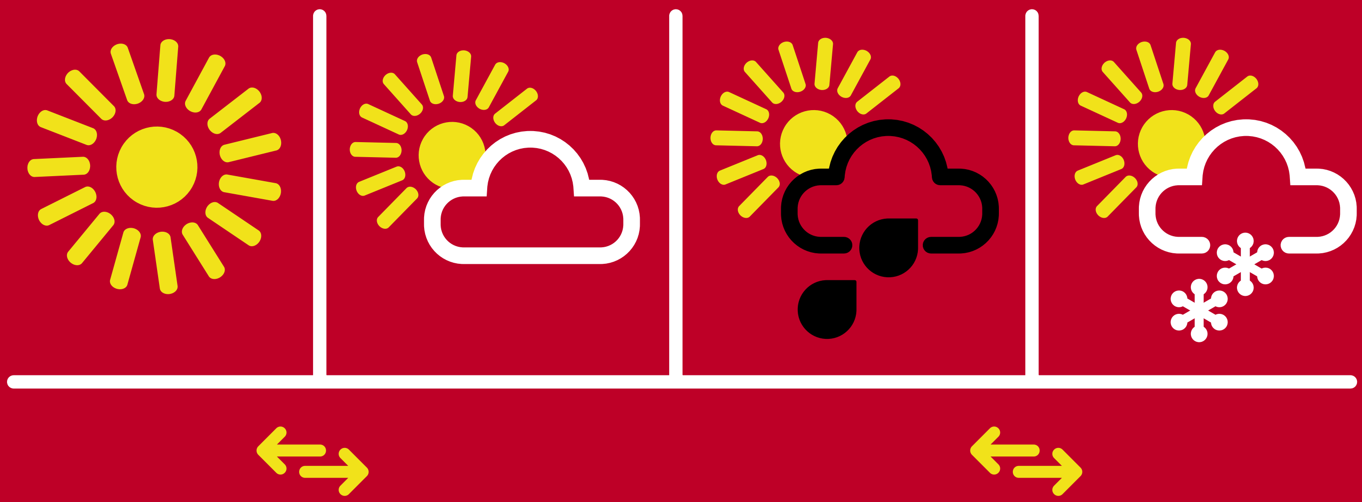
Taxation
A tax credit of €0.1 million arose in the year (2003: tax charge of €10.2 million).

Profit Per Share
The profit for the year was €1.2 million (2003: €69.2 million). Earnings per share before exceptional items were increased by 25.8% in 2004 to 34.1c (2003: 27.1c).

Balance Sheet
Shareholders' funds increased by €44.3 million to €366.2 million at 31 December 2004. The issue of shares to the ESOT accounted for €44.2 million of this increase.

Free cash increased by €174.7 million to €559.5 million and the net cash position (cash and liquid resources less debt) increased by €92.5 million to €318.7 million at 31 December 2004.

ROUTE NETWORK



DUBLIN	LONDON HEATHROW
CORK	LONDON HEATHROW
SHANNON	LONDON HEATHROW
DUBLIN	BIRMINGHAM
DUBLIN	JERSEY
DUBLIN	MANCHESTER
DUBLIN	BRISTOL
DUBLIN	LIVERPOOL
DUBLIN	GLASGOW
DUBLIN	EDINBURGH
DUBLIN	PARIS
CORK	PARIS
DUBLIN	MARSEILLE
DUBLIN	NICE
CORK	NICE
DUBLIN	TOULOUSE
DUBLIN	LYON
CORK	AMSTERDAM
DUBLIN	AMSTERDAM
DUBLIN	ROME
CORK	ROME
DUBLIN	MILAN
DUBLIN	NAPLES
DUBLIN	BOLOGNA
DUBLIN	VENICE
DUBLIN	BRUSSELS
DUBLIN	DUSSELDORF
DUBLIN	FRANKFURT
DUBLIN	MUNICH
CORK	MUNICH
DUBLIN	HAMBURG
DUBLIN	BERLIN

DUBLIN	COPENHAGEN
DUBLIN	ZURICH
DUBLIN	GENEVA
DUBLIN	SEVILLE
DUBLIN	LANZAROTE
DUBLIN	LAS PALMAS
DUBLIN	MADRID
CORK	MALAGA
DUBLIN	MALAGA
CORK	BARCELONA
DUBLIN	BARCELONA
CORK	ALICANTE
DUBLIN	ALICANTE
DUBLIN	TENERIFE
DUBLIN	BILBAO
DUBLIN	VALENCIA
DUBLIN	FARO
CORK	FARO
DUBLIN	LISBON
DUBLIN	VIENNA
DUBLIN	PRAGUE
DUBLIN	WARSAW
DUBLIN	DUBROVNIK
DUBLIN	BUDAPEST
DUBLIN	SHANNON
DUBLIN	BOSTON
SHANNON	BOSTON
DUBLIN	CHICAGO
SHANNON	CHICAGO
DUBLIN	NEW YORK
SHANNON	NEW YORK
DUBLIN	LOS ANGELES
DUBLIN	ORLANDO*

NEW ROUTES FROM DUBLIN IN 2005: NAPLES, SEVILLE, MARSEILLE AND HAMBURG

NEW ROUTES FROM CORK IN 2005: ROME, MUNICH, FARO AND NICE

* CHARTER

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Cash Flow

Cash generated from operating activities (before restructuring payments) increased by €82.5 million to €206.2 million. This was reduced to €102.7 million by payments of €59.3 million for business repositioning and €44.2 million to the ESOT to subscribe for Aer Lingus shares.

There was a net cash inflow from investments and servicing of finance of €7.7 million and a cash outflow for taxation payments of €1.2 million in 2004.

There was a net cash outflow for capital expenditure and financial investment of €64.1 million. This relates primarily to progress payments on the seven new A320 aircraft being purchased, less proceeds from the sale of the B737 aircraft being sold, in connection with the rationalisation of the European fleet.

A net cash inflow of €3.7 million arose on the sale of interests in subsidiary companies.

These factors resulted in a cash inflow of €48.8 million for the year, before the use of liquid resources and financing.

There was a €188 million fund raising programme in 2004 to finance the purchase of aircraft. The resulting increase in debt, net of debt repayments and movements in restricted deposits, of €102.2 million and the proceeds of €44.2 million from the issue of shares to the ESOT added to the liquid resources available at year-end.

As a result of the cash flow from operations, the fund raising and the proceeds from the issue of shares, free cash and liquid resources increased by €195.2 million in 2004.

Treasury and Risk Management

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

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

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

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

Exchange Rates

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

The exchange rate exposure is managed on a selective hedging basis, with a focus on the management of cash flow exposures. The exchange rate management policy provides for a minimum cover of 50% of trading exposures (i.e. net unmatched foreign currency costs and revenues) for the current financial year and a minimum cover of 25% of the trading exposure of the following financial year. At 31 December 2004, the US dollar exposure for 2005 and 2006 was hedged at 54% and 25% respectively and the sterling exposure was hedged at 63% and 38% respectively. The level of cover is reviewed on an ongoing basis in light of market developments and operational decisions.

Interest Rates

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

Fuel Costs

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

The company's fuel risk management policy is that a minimum of 40% cover will be maintained for fuel exposures for the current financial year. At 31 December 2004 Aer Lingus had fuel hedges covering approximately 69% of its estimated 2005 requirement.

Employee Participation

As detailed in Note 19 to the accounts, an employee share participation scheme was established in March 1996. As part of the Airline's 2001 Survival Plan, agreement involving the Irish Government, the employee representatives and Aer Lingus was reached on the establishment of an employee share ownership plan ("ESOP") and a new profit sharing scheme.

Under the terms of these arrangements, the shares issued for the benefit of employees were to increase from 4.76% to 14.9% of the issued share capital of Aer Lingus. This was achieved by issuing 30,472,725 shares to the Employee Share Ownership Trust ("ESOT") during 2004.

During 2004, the amount of profit made available annually to the ESOT by way of profit share for the benefit of employees reached the aggregate maximum of €25.4 million. Also during 2004, the profit share for 2002 of €5.9 million was drawn down by the ESOT. The 2003 and 2004 profit shares totalling €19.5 million remain to be drawn.

Directors' Report
year ended 31 December 2004

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 2004.

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

Results for the Year and State of Affairs as at 31 December 2004
The consolidated profit and loss account for the year ended 31 December 2004 and the consolidated balance sheet at that date are set out on pages 13 and 14. The profit for the year after tax amounted to €1.2 million (2003 – €69.2m).

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

	€ million
Balance, 31 December 2003	(2.9)
Profit for the year	1.2
Other movements, net	(1.1)
Balance, 31 December 2004	(2.8)

As a result of the profit for the year of €1.2 million, currency translation and other adjustments of €1.1 million and the issue of share capital with a nominal value of €38.1 million at a premium of €6.1 million, shareholders' funds increased by €44.3 million since those reported at 31 December 2003. No further transfers to or from reserves are proposed by the Directors.

Dividends
The Directors do not propose the payment of dividends in respect of the year ended 31 December 2004.

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

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

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

John Sharman	Dan Loughrey
Tom Mulcahy	Anne Mills
Willie Clarke*	Sean Murphy*
Frank Cox*	Nora O'Reilly*
Brian Dunne	Chris Wall
Ivor Fitzpatrick	Willie Walsh
Sean FitzPatrick	

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

Dan Loughrey and Tom Mulcahy resigned from the Board on 31 January 2004 and 29 May 2004 respectively. Sean FitzPatrick and Anne Mills were appointed to the Board on 11 March 2004 and 22 March 2004 respectively. Brian Dunne was appointed to the Board on 25 February 2004 and resigned on 27 January 2005. Willie Walsh resigned from the Board on 27 January 2005.

Directors' and Secretary's Shareholdings and Other Interests
The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2004 in the share capital of the Company or any Group undertaking at 1 January 2004 and 31 December 2004 were:

	Aer Lingus Group plc Shares of €1.25 each *	
	31 December 2004	1 January 2004 **
Willie Clarke	11,258	3,539
Frank Cox	17,258	9,539
Brian Dunne	8,206	487
Sean Murphy	10,041	2,322
Nora O'Reilly	11,258	3,539
Willie Walsh	10,616	2,897
Greg O'Sullivan (Secretary)	9,394	1,675

* includes notional allocation of shares under the Aer Lingus Employee Share Ownership Plan (see Note 19)
** at date of appointment if later

All the above shares were held in trust. The Directors and Secretary and their families had no other beneficial interests in the shares of the Company or any other Group undertaking at 31 December 2004.

There were no contracts or arrangements entered into during the year in which a Director was materially interested and which were significant in relation to the Group's business.

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish Statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

Payment Practices
The Directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2002. Procedures have been implemented to identify the dates upon which invoices fall due for payment and to ensure that payments are made by such dates. Such procedures provide reasonable assurance against material non-compliance with the Regulations. The payment policy throughout 2004 was to comply with the requirements of the Regulations.

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

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

ON BEHALF OF THE DIRECTORS

J Sharman	**I Fitzpatrick**
CHAIRMAN	DIRECTOR

24 February 2005

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

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

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

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2003, 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 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 2004 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 2003, and the European Communities (Companies: Group Accounts) Regulations, 1992.

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

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

The net assets of the Company, as stated in the Company balance sheet on page 15, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 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

24 February 2005

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

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

Consolidated Profit and Loss Account
year ended 31 December 2004

	Notes	**2004 €000**	2003 €000
Turnover	1	**906,836**	888,298
Cost of Sales	1	**(695,503)**	(651,598)
Gross Profit		**211,333**	236,700
Other operating expenses:			
- operating	1	**(104,375)**	(153,735)
- employee profit share	19	**(10,644)**	(8,822)
		(115,019)	(162,557)
Operating Profit	1	**96,314**	74,143
Exceptional Items			
Cost of fundamental restructuring	2	**(103,995)**	-
Profit on disposal of fixed assets	2	**702**	-
Profit on exit from non-core activities	2	**793**	-
(Loss)/Profit on Ordinary Activities before Interest		**(6,186)**	74,143
Interest receivable and similar income		**33,485**	32,592
Interest payable and similar charges	3	**(26,161)**	(27,332)
Profit on Ordinary Activities before Taxation	4	**1,138**	79,403
Taxation	7	**98**	(10,186)
Profit for the Year		**1,236**	69,217
Earnings per Share (cent)	8	**0.5c**	27.1c
Earnings per Share – before exceptional items (cent)	8	**34.1c**	27.1c

All of the results for 2004 and 2003 are derived from continuing operations.

J Sharman
CHAIRMAN

I Fitzpatrick
DIRECTOR

Approved by the Board of Directors on 24 February 2005.

Consolidated Balance Sheet
as at 31 December 2004

	Notes	**2004 €000**	2003 €000
Fixed Assets			
Tangible assets	9	**568,063**	591,296
Current Assets			
Stocks	11	**772**	1,295
Debtors	12	**51,951**	67,354
Cash, short-term deposits and liquid resources			
Free cash	13	**559,478**	384,807
Restricted cash	13	**247,244**	271,437
		859,445	724,893
Creditors: Amounts falling due within one year	14	**(442,120)**	(408,908)
Net Current Assets		**417,325**	315,985
Total Assets less Current Liabilities		**985,388**	907,281
Creditors: Amounts falling due after more than one year	15	**(400,214)**	(383,527)
Provisions for Liabilities and Charges	16	**(218,970)**	(201,886)
Net Assets		**366,204**	321,868
Capital and Reserves			
Called-up share capital	17	**357,829**	319,738
Share premium	17	**6,095**	-
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**(2,768)**	(2,918)
Shareholders' Funds - equity interests		**366,204**	321,868

J Sharman
CHAIRMAN

I Fitzpatrick
DIRECTOR

Approved by the Board of Directors on 24 February 2005.

Company Balance Sheet
as at 31 December 2004

	Notes	2004 €000	2003 €000
Fixed Assets			
Financial assets	10	**328,367**	328,367
Current Assets			
Debtors: Amounts due from subsidiary undertakings		**78,842**	34,656
Net Assets		**407,209**	363,023
Capital and Reserves			
Called-up share capital	17	**357,829**	319,738
Share premium	17	**6,095**	-
Capital conversion reserve fund		**5,048**	5,048
Profit and loss account		**38,237**	38,237
Shareholders' Funds - equity interests		**407,209**	363,023

J Sharman
CHAIRMAN

I Fitzpatrick
DIRECTOR

Approved by the Board of Directors on 24 February 2005.

Consolidated Cash Flow Statement

year ended 31 December 2004

		Notes	**2004 €000**	2003 €000
Net cash inflow from Operating Activities		18A	**102,666**	111,663
Returns on Investments and Servicing of Finance		18B	**7,675**	7,482
Taxation			**(1,212)**	210
Capital Expenditure and Financial Investment		18B	**(64,073)**	(43,240)
Acquisitions and Disposals		18B	**3,750**	3,020
Cash inflow before use of liquid resources and financing			**48,806**	79,135
Management of Liquid Resources		18C	**(193,990)**	(32,033)
Financing	- issue of shares to ESOT	19	**44,186**	-
	- increase/(decrease) in debt	18B	**101,287**	(43,020)
Increase in cash in year			**289**	4,082

Reconciliation of net cash flow to movement in net funds (Note 18C)		
Increase in cash in year	**289**	4,082
Cash flow from change in debt and lease financing	**(101,287)**	43,020
Cash outflow from change in liquid resources	**193,990**	32,033
Change in net funds resulting from cash flows	**92,992**	79,135
Other movements	**(488)**	(7,852)
Movement in net funds in year	**92,504**	71,283
Net funds at beginning of year	**226,233**	154,950
Net funds at end of year	**318,737**	226,233

Other Consolidated Statements

year ended 31 December 2004

Statement of Total Recognised Gains and Losses	**2004**	2003
	€000	€000
Profit for the year	**1,236**	69,217
Other movements, principally currency translation adjustments		
Profit and loss account	**(1,086)**	(2,952)
Total recognised gains for the year	**150**	66,265
Reconciliation of Movements in Shareholders' Funds		
Beginning of year	**321,868**	255,603
Total recognised gains for the year	**150**	66,265
Issue of share capital	**38,091**	-
Share premium	**6,095**	-
End of year	**366,204**	321,868
Movements on Profit and Loss Account		
Beginning of year	**(2,918)**	(69,183)
Profit retained for year	**1,236**	69,217
Currency translation and other movements	**(1,086)**	(2,952)
End of year	**(2,768)**	(2,918)

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 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing accounts giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

B Basis of Consolidation

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

C Income Recognition

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

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

D Pension and Other Post-Retirement Obligations

The Group provides pensions to substantially all employees through contributions to a variety of separately administered pension schemes. The nature of these schemes is described in Note 20.

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

E Taxation

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

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

F Tangible Fixed Assets

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

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

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

	Useful life (Years)	Residual value (%)
Flight Equipment:		
Aircraft fleet and major spares		
- Short-haul aircraft	18	10
- Long-haul aircraft	20	10
Rotable spares	5 to 11	Nil
Modifications to leased aircraft	Period of lease	Nil
Depreciable Property:		
Freehold	Principally 50	Nil
Leasehold	Period of lease	Nil
Equipment:		
Ground equipment	3 to 20	Nil
Other	2 to 10	Nil

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

G Financial Fixed Assets

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

H Stocks

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

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

I Cash and Liquid Resources

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

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

J Leases

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

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

K Aircraft maintenance

Provision is made, on a time apportioned basis, for aircraft maintenance costs to be incurred in connection with major airframe and engine overhauls on operating 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 2004

1. Turnover and Operating Profit

	2004	2003
	€000	€000
Turnover	**906,836**	888,298
Cost of sales	**695,503**	651,598
Gross Profit	**211,333**	236,700
Operating expenses		
Selling and marketing	**53,544**	79,857
Administrative	**40,486**	68,561
Loss on exchange	**10,345**	5,317
Employee profit sharing scheme (Note 19)	**10,644**	8,822
	115,019	162,557
Operating profit	**96,314**	74,143

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

2. Exceptional Items

	2004	2003
	€000	€000
Cost of Fundamental Restructuring		
- Employee severance and early retirement programme (a)	**(97,900)**	-
- Employee Share Ownership Plan (b)	**(6,095)**	-
	(103,995)	-
Profit on Disposal of Fixed Assets	**702**	-
Profit on Exit from Non-Core Activities	**793**	-
Net exceptional items before tax	**(102,500)**	-
Tax on exceptional items	**12,812**	-
Net exceptional items after tax	**(89,688)**	-

(a) Provision has been made for the estimated cost of the employee severance and early retirement programme launched in 2004.
(b) The 30,472,725 shares issued to the ESOP during 2004 (Note 19) were issued at a premium of €6,095,000. Provision was made in 2002 for the nominal value of these shares.

3. Interest Payable and Similar Charges

	2004	2003
	€000	€000
On bank loans, overdrafts and other loans:		
- repayable within five years, by instalments	**719**	2,197
Finance lease interest	**23,144**	22,481
Other interest	**254**	254
Finance charge on discounted provision	**2,044**	2,400
	26,161	27,332

4. Profit on Ordinary Activities before Taxation

	2004 €000	2003 €000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned	**28,090**	43,631
- held under finance leases	**40,466**	26,077
Operating lease rentals payable		
- plant and machinery	**124**	777
- aircraft	**41,240**	34,183
- property	**8,604**	8,431
Auditors' remuneration	**125**	125

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 2004 amounted to €nil (2003 : €nil).

5. Directors' Emoluments

	2004 €000	2003 €000
Fees	**145**	35
Other emoluments (including pension contributions)	**1,209**	898
Pension payments to former director	**100**	101
	1,454	1,034

The annual remuneration of Mr W Walsh as Chief Executive of Aer Lingus Group plc as at 31 December 2004 was as follows:

	€000
Fees	**13**
Basic salary	**327**
Performance related payments made in 2004	**74**
Superannuation: standard company benefits	**20**
additional benefits provided to the chief executive	**61**
Other benefits	**49**
Total annual cost	**544**

6. Staff Costs

The average number of persons employed by the Group in the financial year was 3,906 (2003: 4,281) and their associated payroll costs were as follows:

	2004 €000	2003 €000
Wages and salaries	**210,618**	206,983
Social welfare costs	**20,286**	20,055
Pension costs (Note 20)	**14,799**	14,267
	245,703	241,305
Profit Sharing Scheme (Note 19)	**10,644**	8,822
	256,347	250,127

7. Taxation

The tax charge for the year comprises:

	2004	2003
	€000	€000
Current tax		
Ireland		
Corporation tax	**1,070**	212
Revision of previous years' provisions	**-**	(230)
Total current tax	**1,070**	(18)
Deferred tax		
Origination and reversal of timing differences	**(1,168)**	6,887
Other	**-**	3,317
Total deferred tax	**(1,168)**	10,204
Total	**(98)**	10,186

The differences between profit on ordinary activities multiplied by the standard Irish corporation tax rate of 12.5% (2003: 12.5%) and the current tax charge for the year are:

	2004	2003
	€000	€000
Profit on ordinary activities before tax multiplied by standard Irish corporation tax rate of 12.5% (2003: 12.5%)	**142**	9,925
Effects of:		
Expenses not deductible for tax purposes	**41**	49
Depreciation in excess of capital allowances	**956**	(268)
Movement in tax losses	**(1,620)**	(7,824)
Movement in provisions	**1,832**	(788)
Differences in tax rates	**(281)**	(882)
Revision of previous years' provisions	**-**	(230)
Current tax charge/(credit) for year	**1,070**	(18)

8. Earnings per share

	2004	2003
Weighted average number of shares in issue ('000)	**267,030**	255,790
Profit for the year (€000)	**1,236**	69,217
Earnings per share (cent)	**0.5c**	27.1c
Profit for the year before exceptional items (€000)	**90,924**	69,217
Earnings per share before exceptional items (cent)	**34.1c**	27.1c

9. Tangible Assets

	Flight Equipment €000	Property €000	Ground Equipment €000	Other Equipment €000	Total €000
Cost					
Beginning of year	900,773	41,904	57,017	69,353	1,069,047
Additions	125,011	401	2,100	5,438	132,950
Disposals	(247,796)	(3,138)	(10,659)	(7,732)	(269,325)
End of year	777,988	39,167	48,458	67,059	932,672
Depreciation					
Beginning of year	350,685	28,619	40,312	58,135	477,751
Charge for year	54,417	3,383	3,323	7,433	68,556
Transfer from maintenance provisions (Note 16)	6,087	-	-	-	6,087
Disposals	(167,879)	(3,132)	(9,042)	(7,732)	(187,785)
End of year	243,310	28,870	34,593	57,836	364,609
Net Book Value					
End of year	534,678	10,297	13,865	9,223	568,063
Beginning of year	550,088	13,285	16,705	11,218	591,296
Leased assets included in the above:					
Net book value - end of year	463,479	-	-	-	463,479
Net book value – beginning of year	404,197	-	-	-	404,197

10. Financial Assets

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

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

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

11. Stocks

	2004 €000	2003 €000
Sundry stocks	**772**	1,295

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

12. Debtors

	2004 €000	2003 €000
Amounts falling due within one year:		
Trade debtors	**31,358**	41,776
Other debtors	**13,206**	16,003
Prepayments and accrued income	**6,101**	6,109
Value Added Tax	**1,186**	1,214
ESOT (Note 19)	**-**	2,152
	51,851	67,254
Amounts falling due after more than one year:		
ESOT (Note 19)	**100**	100
	51,951	67,354

13. Cash, short-term deposits and liquid resources

	2004 €000	2003 €000
Free cash:		
Cash and demand deposit balances	**4,926**	3,738
Other deposit balances and liquid resources	**554,552**	381,069
	559,478	384,807
Restricted cash:		
Restricted cash deposit balances held to repay certain finance lease obligations (a)	**230,480**	257,720
Other restricted deposits (b)	**16,764**	13,717
	247,244	271,437
Total	**806,722**	656,244

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

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

14. Creditors: Amounts falling due within one year

	2004 €000	2003 €000
Bank loans and overdrafts (Note 15)	**14,413**	15,207
Finance lease obligations (Note 15)	**73,358**	31,277
Trade creditors	**48,440**	32,954
Accruals and deferred income	**98,018**	99,414
Ticket sales in advance	**115,652**	110,310
Taxation and Social Welfare (a)	**18,032**	14,746
ESOT (Note 19)		
- new shares to be issued	**-**	38,091
- profit sharing scheme	**19,466**	14,756
Other creditors	**54,741**	52,153
	442,120	408,908

(a) Taxation and Social Welfare creditors include:

	2004 €000	2003 €000
PAYE	**5,698**	3,146
Social Welfare	**2,935**	2,018
Overseas taxation	**9,329**	9,370
Corporation tax	**70**	212
	18,032	14,746

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

	2004 €000	2003 €000
Loan capital		
Repayable - within one year (Note 14)	**14,413**	15,207
- from one to two years	**11,000**	9,943
- from two to five years	**33,000**	3,661
- after five years (a)	**6,349**	6,349
	64,762	35,160
Included in Creditors falling due within one year (Note 14)	**(14,413)**	(15,207)
	50,349	19,953
Finance lease obligations		
Repayable - within one year (Note 14)	**73,358**	31,277
- from one to two years	**26,011**	80,863
- from two to five years	**103,127**	116,245
- after five years	**220,727**	166,466
	423,223	394,851
Included in Creditors falling due within one year (Note 14)	**(73,358)**	(31,277)
	349,865	363,574
	400,214	383,527

(a) This loan was advanced by the principal shareholder (Note 17). Interest is payable thereon, as determined by the Minister for Finance from time to time, and the current rate is 4% per annum (2003 - 4% per annum).
(b) Loan capital and lease obligations of €478 million (2003 - €421m) are secured on various assets of the Group, principally aircraft.
(c) Loan capital and lease obligations of €279 million (2003 - €253m) at 31 December 2004 are denominated in various foreign currencies, principally US Dollars and Sterling.

16. Provisions for Liabilities and Charges

	Business Repositioning (a) €000	Aircraft Maintenance (b) €000	Maintenance Contracts (c) €000	Deferred Taxation €000	Post Employment Benefits (d) €000	Other (e) €000	Total €000
Beginning of year	56,515	54,234	37,255	15,254	19,579	19,049	201,886
Provided during year	97,900	14,656	-	-	65	2,651	115,272
Finance charge on discounted provision	-	-	2,044	-	-	-	2,044
Utilised during year	(59,311)	(4,180)	(8,724)	(1,168)	(3,295)	(1,930)	(78,608)
Transfers to fixed assets	-	(6,087)	-	-	-	-	(6,087)
Other transfers	9,457	(22,934)	-	-	-	228	(13,249)
Translation adjustment	-	(1,770)	-	-	(134)	(384)	(2,288)
End of year	104,561	33,919	30,575	14,086	16,215	19,614	218,970

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

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

16. Provisions for Liabilities and Charges continued

(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 four years.

(d) Post Employment Benefits

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

(e) Other

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

The deferred tax provision comprises:

	2004	2003
	€000	€000
Accelerated capital allowances	**44,420**	45,376
Tax losses carried forward	**(16,130)**	(17,750)
Provisions	**(14,204)**	(12,372)
Provision for deferred tax	**14,086**	15,254
Provision - beginning of year	**15,254**	5,050
(Credit)/charge in profit and loss account	**(1,168)**	10,204
Provision - end of year	**14,086**	15,254

17. Called-Up Share Capital

	2004	2003
	€000	€'000
Authorised:		
500,000,000 shares of €1.25 each	**625,000**	625,000
Issued and fully paid:		
At 1 January	**319,738**	319,738
Issued during year	**38,091**	-
At 31 December	**357,829**	319,738

During 2004, 30,472,725 shares were issued to the ESOT (Note 19) at a premium of €6,095,000 (Note 2). The issued share capital at 31 December 2004 was 286,263,280 shares.

85.1% of the issued share capital of the Company was held by the Minister for Finance on behalf of the Irish Government at the balance sheet date. In the ordinary course of its business, the Group purchases services from entities controlled by the Irish Government.

18. Consolidated Cash Flow Statement

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

	2004 €000	2003 €000
Operating profit before exceptional items	**96,314**	74,143
Profit on disposal of fixed assets	**(52)**	(112)
Depreciation of tangible fixed assets	**68,556**	69,708
Movement in provisions	**(4,361)**	(920)
Decrease in stocks	**523**	297
Decrease in debtors	**13,842**	12,451
Increase/(decrease) in creditors	**29,654**	(23,742)
Loss/(profit) on exchange	**1,687**	(8,145)
Net Cash Inflow from Operating Activities before Restructuring Payments	**206,163**	123,680
Business repositioning payments	**(59,311)**	(12,017)
Payment to ESOT to subscribe for shares (Note 19)	**(44,186)**	-
Net Cash Inflow from Operating Activities	**102,666**	111,663

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

	2004 €000	2003 €000
Returns on investments and servicing of finance		
Interest received	**31,404**	32,524
Interest paid	**(2,287)**	(4,688)
Finance lease interest paid	**(21,442)**	(20,354)
Net cash inflow for returns on investments and servicing of finance	**7,675**	7,482
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(133,029)**	(43,369)
Sale of tangible fixed assets	**68,956**	129
Net cash outflow for capital expenditure and financial investment	**(64,073)**	(43,240)
Acquisitions and disposals		
Sale of interests in subsidiary undertakings	**3,750**	3,020
Net cash inflow from acquisitions and disposals	**3,750**	3,020
Financing		
Capital element of finance leases	**(79,081)**	(17,167)
Inception of finance leases	**134,279**	-
New loan capital	**55,000**	-
Repayment of loan capital	**(26,440)**	(27,719)
Decrease in restricted deposits	**17,529**	1,866
Net cash inflow/(outflow) from financing	**101,287**	(43,020)

18. Consolidated Cash Flow Statement continued

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 04 €000	Cash Flow €000	Exchange Movement €000	Net Funds (Debt) 31 Dec 04 €000
Cash				
Cash in hand, at bank	3,738	1,212	(24)	4,926
Overdrafts	(2,371)	(923)	(119)	(3,413)
	1,367	289	(143)	1,513
Finance				
Debt due within one year	(12,836)	1,836	-	(11,000)
Debt due after one year	(19,953)	(30,396)	-	(50,349)
Finance leases	(394,851)	(55,198)	26,826	(423,223)
Restricted deposits	271,437	(17,529)	(6,664)	247,244
	(156,203)	(101,287)	20,162	(237,328)
Liquid resources				
Other cash deposits and liquid resources	381,069	193,990	(20,507)	554,552
Total	226,233	92,992	(488)	318,737

19. Employee Participation

Employee Share Ownership Plan ("ESOP")

An ESOP was established by a Trust Deed executed on 28 April 2003. Under the terms of the ESOP, a payment of €44.186 million was made to the Aer Lingus Employee Share Ownership Trust (ESOT) during 2004 which utilised these funds to subscribe for shares in Aer Lingus Group plc. The ESOT holds these shares on behalf of participants. Following the issue of these shares, the combined shareholding held on behalf of participants by the ESOT and the previous Employee Share Participation Scheme established in 1996 is 14.9% of the issued share capital of Aer Lingus Group plc.

At 31 December 2004, the numbers of shares held by the ESOT and the previous Employee Share Participation Scheme were 33,205,501 and 9,447,727 respectively.

Profit Sharing Scheme

As part of the 2001 Survival Plan, a new profit sharing scheme was also established. Subject to confirmation by the Chief Executive that he is satisfied that staff are co-operating with the implementation of the Labour Relations Commission's proposals issued in 2001 in respect of the Survival Plan, the Group will make 10% of the Group profit before tax and exceptional items available annually to the ESOT by way of profit share for the benefit of employees up to an aggregate maximum of €25.4 million. The profit sharing charge for the year included in the profit and loss account for 2004 is determined as follows:

	€000
Gross profit	211,333
Operating expenses	(104,375)
Interest receivable and similar income	33,485
Interest payable and similar charges	(26,161)
	114,282
Profit share (10% subject to aggregate maximum of €25.4m)	10,644

During 2004, the aggregate maximum of €25.4 million was reached and the profit share is therefore restricted to €10,644,000.

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

	€m
Maximum entitlement	25.4
Provision made in respect of profits for:	
2002	(5.9)
2003	(8.8)
2004	(10.7)
Balance remaining	-

During 2004, the profit share for 2002 of €5.9 million was drawn down by the ESOT. The 2003 and 2004 profit shares totalling €19.5 million remain to be drawn. The Group has also granted a loan of €100,000 to the ESOT which is repayable after more than one year and is secured on the shares held by the ESOT.

20. Pensions

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

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

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

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

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

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

The Group's contributions charged for the year were €14.8 million (2003 - €14.3m), based on rates specified by the scheme rules.
The actuarial reports are not available for public inspection.

21. Guarantees and Other Financial Commitments

(a) Capital commitments

At 31 December 2004 the Group had capital commitments as follows:

	2004	2003
	€000	€000
Contracted for but not provided		
- Aircraft and equipment	**62,401**	155,174
- Other	**3,226**	1,572
Authorised but not contracted for	**21,131**	28,502
	86,758	185,248

(b) Lease commitments

At 31 December 2004 the amounts payable in the following 12 months under operating leases were as set out below:

	Property	**Aircraft**	**Plant and Machinery**
	€000	**€000**	**€000**
Operating leases which expire:			
Within one year	1,302	7,510	10
Between two and five years	1,612	18,568	93
After five years	3,412	6,142	-
	6,326	32,220	103

(c) Contingent liabilities

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

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

21. 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 2004 are forward purchases of US Dollars 157.2 million (2003: US Dollars 181 million and Sterling £16 million) and forward sales of Sterling £39.1 million (2003: US Dollars 48 million and Sterling £60 million).

Notes

Notes