



FERRIES AND TRAVEL DIVISION

- Operates combined passenger / Ro-Ro ferries
- Charters ferries to third parties
- Provides holiday and travel services

Turnover	€170.2m	-1%
EBITDA	€42.4m	-3%
Profit before restructuring provision, interest and tax	€25.3m	-20%
Restructuring Provision	€4.8m	

2003 was a testing year for tourism and Ro-Ro freight markets. In the Ferries and Travel division turnover fell 1% while profit (before interest and tax and an exceptional restructuring provision) fell by 20%.

Irish Ferries passenger and Ro-Ro freight services performed well in volume terms with record carryings of cars (407,000 units) and freight units (201,000 units). However, competitive pressures on pricing and the negative impact of the weaker sterling on our Euro denominated earnings meant increases in volumes carried did not translate into increased revenues and profits. For the ship chartering companies the Euro value of sterling and US dollar denominated charters fell.

Irish Ferries - Passenger ferries

The uncertainty created by the war in Iraq and a challenging economic climate created a difficult start to the year. The total Irish Sea market fell in the first half of the year, although it recovered somewhat during the second half of the year, which includes the peak summer season. Overall in 2003 there was no growth in the car market.

In the context of these markets and increased competition - in the form of new tonnage introduced by our main competitor on the Irish Sea and new routes introduced by low cost airlines - Irish Ferries performance in volume terms was good. In 2003 we continued to grow our Irish Sea business, with car carryings increasing by 3% assisted by a strong performance in the British market. In total, across all our routes, we had record carryings of 407,000 cars, a 2% increase on 2002.

Our yields were affected by the competitive pricing environment and by the weakened value of sterling. The UK market is a key market for Irish Ferries and a significant proportion of our revenue is earned there. Although base sterling yields were broadly unchanged in 2003 average passenger rates fell in Euro terms. In 2003 our yields in Euro terms were 4% lower overall.

A large proportion of Irish Ferries' costs are fixed. Our payroll cost base has increased in recent years in accordance with centrally negotiated Irish national wage agreements and has moved out of line with that of our competitors. During 2003 Irish Ferries commenced a process of consultation

with its workforce with a view to reducing on-going costs and improving competitiveness. We have made a provision of €4.8 million in 2003 for the estimated costs of implementing the changes arising from this consultation process.

Our strategy is to focus on short routes with high utilisation of ships. On the Irish Sea we operate between Dublin and Holyhead and between Rosslare and Pembroke. On the Dublin Holyhead route we deploy two ferries - *Ulysses*, the world's largest car ferry, with superb operational performance and reliability and the *Dublin Swift*, which offers a speedy crossing time of 109 minutes. Both offer our trademark high quality on board service. The market responded particularly well to the *Swift* in 2003 and she achieved significant growth in passenger numbers. Total car volumes on this route increased by 5%.



Ulysses



Dublin Swift



Isle of Inishmore



Normandy

On the Southern Corridor, served by the vessel *Isle of Inishmore*, market conditions were relatively more challenging. However, despite the drop in the overall Southern Corridor market, Irish Ferries maintained car volumes and suffered only a 1% reduction in overall passenger numbers.

For the first time in six years, the ferry market between Ireland and France declined, with a 2% reduction in car volumes. Most of this reduction resulted from the considerable increase in direct air services between Ireland and Continental Europe, particularly France. Although there was a reduction in our volumes, our average yields remained strong on this route, neutralising any negative impact on revenues.



Total passenger numbers across our routes were unchanged at 1.7 million. Car passengers increased by 3% whilst the lower yield foot passenger business dropped by 11%. Most of this decline resulted from the reduction in the total foot passenger market.

VOLUMES	2003	2002	% change
Passenger numbers	1.7m	1.7m	-
Total car carryings	407,000	400,000	+2%
Irish Sea car carryings	352,000	341,000	+3%
Ireland - France car carryings	55,000	59,000	-7%

IrishFerries.com

Our website, irishferries.com, continued the growth trend of recent years, with 24% of bookings made via our website. We increased our ability to trade via this channel, as it offers good commercial opportunities, improved customer service and cost reduction potential. We were pleased that the site was recognised as Best Website by Dublin Tourism in their 2003 Annual Business Enterprise Awards.

Our marketing effort in 2003 emphasised the good value on offer through our fares structure along with our trademark high quality service. Research plays a strong role in the development of our product and customer feedback focuses our development plans.



In the absence of any increase in the size of the total market in 2003 our growth depended on our ability to increase our market share, which, in turn, depended on our customers choosing us from the broad range of travel options available. We made Irish Ferries an attractive option by offering a high quality product and excellent customer service at the right price.

In recent years we invested heavily in high quality vessels which provide safety, reliability and the utmost levels of comfort for our passengers. Customer service is a top priority for the management team. Our goal is that of operational excellence and the operational targets that we set are dependent upon the consistent delivery of a reliable, timely and high quality service.

There is ongoing change in our distribution channels, with a move towards direct online bookings. In 2003 we continued to improve our web-based distribution by improving travel agent access to our reservations system via the internet and by enhancing our direct customer relationship management. Given the increasingly competitive fares environment, we were obliged to reduce the costs of our travel trade activity, including a general reduction in travel agent commissions in Ireland and Britain.

Changes made in our on-board services this year, including improved food and beverage delivery, have been driven by comments from customers. Our dedicated customer support function reported a 13% fall in the number of complaints received in 2003.

We were delighted to win the *Best Ferry Company* award for the seventh year in succession at the Irish Travel Trade 2003 awards. As always, this is made possible by the contribution of our experienced and friendly staff who have maintained their commitment to the provision of the highest level of customer care on a year round basis.



Irish Ferries - Roll On Roll Off Freight 2003

Irish Ferries operates two purpose built Ro-Ro ferries and has the largest capacity for Ro-Ro freight between Ireland and Britain. Departure times are scheduled to complement freight customer requirements. In 2003 freight carryings reached a new high of 201,000 units across our route network, a 9% increase over last year. However due to competitive pressures there has been a fall in our yields, which were down 4% in the year.

The improvement in Ireland's economy resulted in a return to growth in the freight market in 2003. During the year Irish Ferries volume growth of 9% outperformed market growth of 5%. Our investment in recent years has focussed on providing first class tonnage for the roll on roll off freight market. We deploy two of Europe's largest, multi-purpose vessels on the Central and Southern Corridors and this has allowed Irish Ferries to become the market leader on Ireland's short sea freight routes.

Volumes on our Dublin - Holyhead grew by 11% to 138,100 units, whilst there was an increase of 4% on our Rosslare - Pembroke service to 60,100 units. On the Ireland - France routes volumes were broadly unchanged.

During the year we experienced an increasingly competitive climate. Our primary short sea competitor introduced new capacity on the Dublin - Holyhead route. Another competitor, on the long sea Dublin routes, experienced difficulties and was obliged to seek protection under the Administration process. Two operators attempted to consolidate their operations in 2003 illustrating the underlying overcapacity in the market.

The increased competition and excess capacity was evidenced through the 4% fall in our yields in 2003. Irish Ferries freight market position was maintained because of its close commercial relationship with regular customers. Our reliable, high quality service, combined with good value shipping rate packages, ensured that our position as market leader on our key routes remained solid.

Schedule integrity is key to the provision of an excellent Ro-Ro freight service:	
Dublin / Holyhead (Ulysses)	99% scheduled sailings achieved
Rosslare / Pembroke (Isle of Inishmore)	98% scheduled sailings achieved
Rosslare / France (Normandy)	99% scheduled sailings achieved

Chartering

Two of the Group's vessels - the 2,400 bed cruise ferry *Pride of Bilbao* and the car and freight ferry *Pride of Cherbourg* - are on bareboat charter to a third party, P&O European Ferries. These charters are denominated in Sterling and in US dollars. Consequently charter income fell in 2003 in Euro terms.

In Summer 2003, the consumer magazine "Holiday Which" carried out a survey of 13 ships on the UK - Continental route. Of 13 vessels surveyed it rated the *Pride of Bilbao* as one of the "smartest ships" and that with the "widest choice of eating and drinking venues". The *Pride of Cherbourg* was noted as a "competent, comfy ship with good play facilities for children".

Travel services

Irish Ferries Holidays offers customers a choice of holiday packages and this business made another positive contribution in 2003. The trading environment for our UK high street travel agents remained challenging. We continued their restructuring by consolidating our business into four branches. We refurbished one of our London agencies and relocated our branch in Birmingham.

Outlook

In 2004 the tourism market is expected to remain challenging. We will continue to work with tourism agencies such as Tourism Ireland Limited, the all Ireland tourism body, to encourage "own car" tourism into Ireland. Given the competitive environment we will remain focussed on costs and we expect to reach a successful conclusion to our process of consultation with our staff in our bid to restore cost competitiveness. We will also continue to strengthen our internet offering to maximise its distribution potential.

We are optimistic that there will be further growth in the Ro-Ro freight market in 2004, having experienced strong growth in this market in the latter half of 2003. Irish external trade data shows that early 2004 import and export volumes are benefiting from a pick-up in global demand conditions and we feel we are ideally placed to take advantage of this.

In 2004, our customers' needs will remain at the forefront of all our plans. In our increasingly competitive market we recognise the need to maintain high standards and we hope that our customers will continue to respond positively.