

Consolidated Accounts

for the year ended 31 December, 1998

Directors' Report

year ended 31 December, 1998

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, 1998.

Principal Activities and Business Review

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

During the year, the Group discontinued its aircraft maintenance activities through the sale of the business of TEAM Aer Lingus Limited, its Dublin based aircraft maintenance subsidiary, to FLS Aerospace, and the agreement to sell the aircraft maintenance business of SRS Aviation (Ireland) Limited, the Group's Shannon based subsidiary, to UPS. The Group also disposed of its wholly owned subsidiary, Fernley Airport Services Limited, and its remaining 10% interest in its former subsidiary, Lufthansa Airmotive Ireland Holdings Limited, during the year.

Results for the Year and State of Affairs as at 31 December, 1998

The consolidated profit and loss account for the year ended 31 December, 1998 and the consolidated balance sheet at that date are set out on pages 30 and 31. The profit for the year, after net exceptional profits of IR£3.4 million, amounted to IR£53.7 million (1997 - loss of IR£45.9m, after net exceptional losses of IR£89.2m).

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

| | IR£ million |
|----------------------------|--------------------|
| Balance, 31 December, 1997 | (97.0) |
| Profit for the year | 53.7 |
| Other movements, net | <u>(1.9)</u> |
| Balance, 31 December, 1998 | <u>(45.2)</u> |

As a result of the profit for the year of IR£53.7 million, currency translation and other adjustments of IR£1.9 million and the issue of 4.1 million ordinary shares of IR£1 each under the Employee Share Participation Scheme, shareholders' funds increased by IR£55.9 million since 31 December, 1997. 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, 1998.

Important Events Since 31 December, 1998

No significant events affecting the Group have taken place between 31 December, 1998 and the date of approval of these accounts.

Future Developments

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

Employee Participation

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

As further explained in Note 20 to the accounts, an Employee Share Participation Scheme was established on 13 March, 1996. The employees' share of the Group's profit is estimated at IR£5.71 million in 1998 (1997 - IR£4.58m) and this has been provided for in the Group's profit and loss account.

Employee Health and Safety

All trading subsidiaries in the Group have produced and implemented corporate safety statements in accordance with the Safety, Health and Welfare at Work Act, 1989.

Directors

The Directors who served during the year are listed below:

| | |
|--------------------------|--------------------|
| Bernie Cahill (Chairman) | Joan Loughnane* |
| David Austin RIP | Angela Lyne |
| Ella Casey | Jim O'Leary |
| Willie Clarke* | Donal O'Siocháin* |
| Aidan Dolan* | William Phelan* |
| Máire Geoghegan-Quinn | Peter Quigley* |
| Rose Hynes | Desmond Richardson |
| John Keane | Chris Wall |
| Frank Keoghan* | Patrick Wright |

The Directors note with regret the death of David Austin on 01 November, 1998. Angela Lyne and Ella Casey retired from the Board on 22 December, 1998. John Keane was appointed to the Board on 03 December, 1998 and Máire Geoghegan-Quinn and Chris Wall were appointed to the Board on 23 December, 1998. Following the Worker Director elections in 1998, Aidan Dolan, Donal O'Siocháin, William Phelan and Peter Quigley retired from the Board on 30 April, 1998 and Willie Clarke, Aidan Dolan, Frank Keoghan and Joan Loughnane were appointed to the Board on 01 May, 1998. Frank Keoghan resigned from the Board on 14 December, 1998 and was replaced by Mick Sweeney on 29 January, 1999.

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

Directors' and Secretary's Shareholdings and Other Interests

The beneficial interests, including family interests, of the directors and secretary in office at 31 December, 1998 in the share capital of the Company or any Group undertaking at 01 January, 1998 and 31 December, 1998 were:

| | Aer Lingus Group plc Ordinary IR£1 Shares | |
|----------------------------|--|--------------------|
| | 31 December, 1998 | 01 January, 1998 * |
| Willie Clarke | 1,864 | 1,150 |
| Aidan Dolan | 1,864 | 1,150 |
| Joan Loughnane | 1,864 | 1,150 |
| John O'Donovan (Secretary) | 1,344 | 630 |

* at date of appointment if later.

All the above shares were held in trust under the Employee Share Scheme. The directors and secretary and their families had no other interests in the shares of the Company or any other Group undertaking at 31 December, 1998.

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' Report (continued)

year ended 31 December, 1998

Directors' Responsibility Statement

As required by company law, the Directors have had prepared and are responsible for the accompanying accounts, the notes to these accounts, the choice of the accounting policies used in their preparation and the other related financial information contained in this report, which give a true and fair view of the state of affairs of the Group and of its profit, cash flows, and total recognised gains and losses for the year. The Group's accounts have been prepared in conformity with applicable accounting standards, 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 1998 was to comply with the requirements of the Act.

Auditors

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

ON BEHALF OF THE DIRECTORS

B.M. Cahill

CHAIRMAN

23 March 1999.

J.O'Leary

DIRECTOR

Auditors' Report

Auditors' Report to the Members of Aer Lingus Group plc

We have audited the accounts on pages 30 to 49 which have been prepared under the historical cost convention and the accounting policies set out on pages 35 to 37.

Respective Responsibilities of Directors and Auditors

As described on page 28, the Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on these accounts and to report our opinion to you.

Basis of Opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and Group at 31 December, 1998 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 1990 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's balance sheet is in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 26 to 28 is consistent with the accounts.

The net assets of the Company, as stated in the balance sheet on page 32, 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, 1998 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

23 March 1999

Consolidated Profit and Loss Account

year ended 31 December, 1998

| | | Notes | 1998 IR£000 | 1997 IR£000 |
|---|---------------------------|-------|------------------|----------------|
| Turnover | - continuing operations | 1 | 831,622 | 736,252 |
| | - discontinued operations | 1 | 69,822 | 66,023 |
| | | | 901,444 | 802,275 |
| Cost of sales | | | (650,291) | (568,812) |
| Gross Profit | | | 251,153 | 233,463 |
| Other operating expenses | - operating | | (199,966) | (189,390) |
| | - employee participation | 20 | (5,708) | (4,583) |
| | | 1 | (205,674) | (193,973) |
| Operating Profit/(Loss) | - continuing operations | 1 | 44,955 | 40,545 |
| | - discontinued operations | 1 | 524 | (1,055) |
| | | | 45,479 | 39,490 |
| Share of operating profit in associates | | | 1,194 | 2,089 |
| | | | 46,673 | 41,579 |
| Exceptional Items: | | | | |
| Profit/(Loss) on exit from non-core activities | | 2 | 8,163 | (88,259) |
| Writedown of Fixed Assets | | 2 | (4,736) | (6,000) |
| Profit on disposal of Fixed Assets | | 2 | - | 5,012 |
| Profit/(Loss) on Ordinary Activities before Interest | | | 50,100 | (47,668) |
| Interest receivable and similar income | | | 23,155 | 23,560 |
| Interest payable and similar charges | | 3 | (18,455) | (23,891) |
| Profit/(Loss) on Ordinary Activities before Taxation | | 4 | 54,800 | (47,999) |
| Taxation | | 6 | (627) | 2,152 |
| Profit/(Loss) on Ordinary Activities after Taxation | | | 54,173 | (45,847) |
| Minority interests | | 18 | (441) | (82) |
| Profit/(Loss) for the Year | | | 53,732 | (45,929) |
| Earnings/(Loss) per Share (Pence) | | 7 | 21.4p | (18.5)p |

Movements on the profit and loss account are summarised on page 34.

B.M. Cahill

CHAIRMAN

J.O'Leary

DIRECTOR

Approved by the Board of Directors on 23 March, 1999.

Consolidated Balance Sheet

as at 31 December, 1998

| | Notes | 1998 IR£000 | 1997 IR£000 |
|--|-------|------------------------------|-----------------------|
| Fixed Assets | | | |
| Tangible assets | 8 | 361,865 | 348,804 |
| Financial assets | 9 | - | 1,624 |
| | | <u>361,865</u> | <u>350,428</u> |
| Current Assets | | | |
| Stocks | 10 | 4,474 | 14,356 |
| Debtors | 11 | 127,777 | 129,476 |
| Cash, short term deposits and liquid resources | 12 | 341,081 | 355,174 |
| | | <u>473,332</u> | <u>499,006</u> |
| Creditors: Amounts falling due within one year | 13 | (288,435) | (283,581) |
| Net Current Assets | | <u>184,897</u> | <u>215,425</u> |
| Total Assets less Current Liabilities | | 546,762 | 565,853 |
| Creditors: Amounts falling due after more than one year | 14 | (236,460) | (254,124) |
| Investment Grants | 15 | - | (2,482) |
| Provisions for Liabilities and Charges | 16 | (100,245) | (156,207) |
| Net Assets | | <u><u>210,057</u></u> | <u><u>153,040</u></u> |
| Capital and Reserves | | | |
| Called-up share capital | 17 | 253,808 | 249,709 |
| Profit and loss account | | (45,186) | (96,956) |
| Shareholders' funds - equity interests | | <u>208,622</u> | <u>152,753</u> |
| Minority Interests | 18 | <u>1,435</u> | <u>287</u> |
| | | <u><u>210,057</u></u> | <u><u>153,040</u></u> |

B.M. Cahill

CHAIRMAN

J.O'Leary

DIRECTOR

Approved by the Board of Directors on 23 March, 1999.

Company Balance Sheet

as at 31 December, 1998

| | Notes | 1998 IR£000 | 1997 IR£000 |
|---|-------|-----------------|-----------------|
| Fixed Assets | | | |
| Financial assets | 9 | <u>168,710</u> | <u>168,710</u> |
| Creditors: Amounts falling due within one year | | | |
| Amounts due to subsidiary undertakings | | <u>(4,902)</u> | <u>(9,001)</u> |
| Net Current Liabilities | | <u>(4,902)</u> | <u>(9,001)</u> |
| Net Assets | | <u>163,808</u> | <u>159,709</u> |
| Capital and Reserves | | | |
| Called-up share capital | 17 | <u>253,808</u> | <u>249,709</u> |
| Profit and loss account | | <u>(90,000)</u> | <u>(90,000)</u> |
| Shareholders' Funds - equity interests | | <u>163,808</u> | <u>159,709</u> |

B.M. Cahill

CHAIRMAN

J.O'Leary

DIRECTOR

Approved by the Board of Directors on 23 March, 1999.

Consolidated Cash Flow Statement

year ended 31 December, 1998

| | Notes | 1998 IR£000 | 1997 IR£000 |
|---|-------|-----------------|----------------|
| Net cash inflow from Operating Activities | 19A | 116,029 | 74,623 |
| Returns on Investments and Servicing of Finance | 19B | 4,806 | (1,387) |
| Taxation | | (247) | (975) |
| Capital Expenditure and Financial Investment | 19B | (76,178) | (50,938) |
| Acquisitions and Disposals | 19B | (24,376) | 20,316 |
| Cash inflow before use of liquid resources and financing | | 20,034 | 41,639 |
| Management of Liquid Resources | | 9,809 | 59,595 |
| Financing - Decrease in debt | 19B | (36,117) | (98,300) |
| (Decrease)/Increase in cash in year | | (6,274) | 2,934 |
| <hr/> | | | |
| Reconciliation of net cash flow to movement in net debt (Note 19C) | | | |
| (Decrease)/Increase in cash in year | | (6,274) | 2,934 |
| Cash outflow from decrease in debt and lease financing | | 36,117 | 98,300 |
| New finance leases | | - | (28,040) |
| Cash inflow from change in liquid resources | | (9,809) | (59,595) |
| Change in net debt resulting from cash flows | | 20,034 | 13,599 |
| Other movements | | 103 | (11,156) |
| Movement in net debt in the year | | 20,137 | 2,443 |
| Net funds at 01 January | | 49,684 | 47,241 |
| Net funds at 31 December | | 69,821 | 49,684 |

Other Consolidated Statements

year ended 31 December, 1998

| | 1998 IR£000 | 1997 IR£000 |
|--|------------------------|-----------------|
| Statement of Total Recognised Gains and Losses | | |
| Profit/(Loss) for the year | 53,732 | (45,929) |
| Other movements, principally currency translation adjustments Profit and Loss account | <u>(1,962)</u> | <u>4,852</u> |
| Total recognised gains and losses for the year | <u>51,770</u> | <u>(41,077)</u> |
| <hr/> | | |
| Reconciliation of Movements in Shareholders' Funds | | |
| Balance, beginning of year | 152,753 | 190,458 |
| Total recognised gains and losses | 51,770 | (41,077) |
| Issue of share capital - employee share scheme | <u>4,099</u> | <u>3,372</u> |
| Balance, end of year | <u>208,622</u> | <u>152,753</u> |
| <hr/> | | |
| Movements on Profit and Loss Account | | |
| Profit and Loss Account, beginning of year | (96,956) | (58,564) |
| Profit retained/(loss absorbed) for year | 53,732 | (45,929) |
| Transfer from revaluation reserve | - | 2,685 |
| Currency translation adjustment | <u>(1,962)</u> | <u>4,852</u> |
| Profit and Loss Account, end of year | <u>(45,186)</u> | <u>(96,956)</u> |

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.

To facilitate comparability, certain amounts for 1997 have been re-classified to conform with 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. The results of subsidiaries disposed of during the year are included in the consolidated financial statements up to the effective date of disposal. The results of associated undertakings are included, using the equity method of accounting.

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 and airline services activities 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".

D Pension and Other Post-Retirement Obligations

The Group provides pensions to substantially all employees through contributions to a variety of separately administered schemes, the majority of which are defined benefit pension schemes.

The amount charged to the profit and loss account in respect of such schemes and other post-retirement obligations is the estimated regular cost of providing the benefits accrued in the year (as advised by professionally qualified actuaries), adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining service lives of employees.

E Taxation

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

Deferred taxation is provided, using the liability method, on material timing differences to the extent that it is expected to become payable in the foreseeable future.

F Tangible Fixed Assets

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

Aircraft which are financed in whole or in part in foreign currency, either by loans or finance leases, are regarded together with the related liabilities as separate groups of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Irish pounds at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft net book values and related foreign currency liabilities are taken to reserves.

Statement of Accounting Policies (continued)

F Tangible Fixed Assets (continued)

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life. Residual values are assumed to be nil for all asset categories.

Useful lives are reappraised regularly and fall in the following ranges:

| | Useful life (Years) |
|----------------------------------|--------------------------------|
| Flight Equipment: | |
| Aircraft fleet and major spares | 15 to 20 |
| Rotable spares | 5 to 15 |
| Modifications to leased aircraft | Period of lease |
| Depreciable Property: | |
| Freehold | Principally 50 |
| Leasehold | Period of lease |
| Equipment: | |
| Ground equipment | 3 to 20 |
| Other | 3 to 10 |

Interest attributable to progress payments made in respect of aircraft is capitalised and added to the cost of the assets concerned. Capitalisation of interest ceases when the asset is placed in service.

G Financial Fixed Assets

Investments in associated undertakings, where the Group has a long-term strategic interest, are recorded using the equity method of accounting under which the Group's current year share of post-acquisition profits less losses is included in the profit and loss account and added to the carrying value of the investments in the balance sheet. The results of such associated undertakings which were disposed of during the year are accounted for under the equity method up to the effective date of disposal. Other investments in associated companies are recorded on the basis of dividends receivable.

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

H Stocks

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

Cost incurred in bringing each item to its present location and condition is based on:

| | |
|-----------------------------------|--|
| Consumable aircraft spares | - average unit cost based on invoice cost. |
| Work-in-progress and other stocks | - cost of direct materials and direct labour expended, together with an appropriate proportion of production related overheads based on normal levels of activity. |

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. 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.

Changes in the Irish pound value of outstanding foreign currency liabilities which finance aircraft are offset as reserve movements to the extent of the exchange differences arising on the translation of related aircraft. Any remaining balance of exchange differences on such foreign currency liabilities is dealt with in the profit and loss account.

For the purposes of consolidation of subsidiaries and application of the equity method of accounting in respect of associated undertakings, the closing rate/net investment method is used, under which translation gains or losses are shown as movements on reserves. Profit and loss accounts of overseas subsidiaries are translated at average exchange rates.

M Treasury Instruments

The Group enters into transactions in the normal course of business using a variety of treasury instruments in order to hedge against exposures to fluctuating exchange rates, interest rates and fuel costs. These transactions are accounted for in accordance with their economic substance.

The principal transactions are forward contracts and currency swaps entered into in order to change the currency exposure of foreign currency debt positions. Such forward contracts and swaps are revalued at closing spot rates of exchange and the resulting gains and losses are accounted for on a consistent basis with gains and losses on the retranslation of the related debt (Accounting Policy L). The interest effect of these transactions is accounted for evenly over the duration of the contracts.

Forward contracts and related instruments designated to hedge future transactions, such as foreign currency expenditure, are disclosed in the accounts as commitments and are accounted for on a consistent basis with the related transactions.

Notes to the Consolidated Accounts

year ended 31 December, 1998

1. Turnover & Operating Profit

| | Continuing | Discontinued | 1998 Total | Continuing | Discontinued | 1997 Total |
|--------------------------------|----------------------|-------------------|----------------------|----------------|----------------|----------------|
| | IR£000 | IR£000 | IR£000 | IR£000 | IR£000 | IR£000 |
| Turnover | | | | | | |
| - Passenger & Cargo Services | 831,622 | - | 831,622 | 736,252 | - | 736,252 |
| - Airline Services | - | 69,822 | 69,822 | - | 66,023 | 66,023 |
| | <u>831,622</u> | <u>69,822</u> | <u>901,444</u> | <u>736,252</u> | <u>66,023</u> | <u>802,275</u> |
| Cost of Sales | 595,767 | 54,524 | 650,291 | 514,864 | 53,948 | 568,812 |
| Operating Expenses | | | | | | |
| - Selling and Marketing | 116,357 | 1,667 | 118,024 | 103,095 | 1,603 | 104,698 |
| - Administrative | 68,835 | 11,853 | 80,688 | 73,165 | 10,827 | 83,992 |
| - Distribution | - | 1,254 | 1,254 | - | 700 | 700 |
| - Employee Participation | 5,708 | - | 5,708 | 4,583 | - | 4,583 |
| | <u>190,900</u> | <u>14,774</u> | <u>205,674</u> | <u>180,843</u> | <u>13,130</u> | <u>193,973</u> |
| Operating Profit/(Loss) | <u>44,955</u> | <u>524</u> | <u>45,479</u> | <u>40,545</u> | <u>(1,055)</u> | <u>39,490</u> |

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

2. Exceptional Items

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

| | 1998 IR£000 | 1997 IR£000 |
|---|---------------------|------------------------|
| Profit/(Loss) on Exit from Non-Core Activities | | |
| - Maintenance activities (a) | - | (90,437) |
| - GPA Group | 7,735 | - |
| - Fernley Airport Services | 583 | - |
| - Other | (155) | 2,178 |
| | <u>8,163</u> | <u>(88,259)</u> |
| Writedown of Fixed Assets | | |
| - Aircraft and flight equipment (b) | (4,736) | (6,000) |
| Profit on Disposal of Fixed Assets | | |
| - Disposals of aircraft and flight equipment | - | 5,012 |
| Net Exceptional Items | <u>3,427</u> | <u>(89,247)</u> |

(a) The loss on exit from maintenance activities represents the estimated net profits and losses arising from the Group's exit from its maintenance activities.

(b) The writedown of fixed assets comprises a provision to reduce the carrying value of certain commuter aircraft to net realisable value.

3. Interest Payable and Similar Charges

| | 1998 | 1997 |
|--|----------------------|---------------|
| | IR€000 | IR€000 |
| On bank loans, overdrafts and other loans: | | |
| - repayable within five years, by instalments | 7 | 11 |
| - repayable within five years, not by instalments | 2,732 | 5,249 |
| Finance lease interest | 14,810 | 13,995 |
| Interest on irredeemable capital | 363 | 363 |
| Other interest, principally on loans repayable after more than five years | 543 | 4,273 |
| | <u>18,455</u> | <u>23,891</u> |

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

| | 1998 | 1997 |
|---|-------------------|------------|
| | IR€000 | IR€000 |
| Profit/(Loss) on ordinary activities before taxation is stated after charging (crediting): | | |
| Depreciation of tangible fixed assets | | |
| - owned | 18,381 | 19,914 |
| - held under finance leases | 15,945 | 14,726 |
| Operating lease rentals payable | | |
| - plant and machinery | 344 | 349 |
| - aircraft and property | 85,708 | 67,558 |
| Operating lease rentals receivable | (6,649) | (7,003) |
| Auditors' remuneration | 155 | 226 |
| Directors' emoluments | | |
| - fees | 62 | 61 |
| - other emoluments (including pension contributions) | 164 | 177 |
| - pensions paid to former directors | 75 | 74 |
| | <u>155</u> | <u>226</u> |

In accordance with Section 3 (2) of the Companies (Amendment) Act, 1986, the profit and loss account of the Company is not presented.

5. Staff Costs

The average number of persons employed by the Group in the financial year, analysed by business activity, was as follows:

| | 1998 | 1997 |
|------------------------------|---------------------|--------------|
| | No. | No. |
| Passenger and Cargo Services | 6,489 | 6,531 |
| Airline Services | 1,827 | 1,777 |
| | <u>8,316</u> | <u>8,308</u> |

| | 1998 | 1997 |
|--|-----------------------|----------------|
| | IR€000 | IR€000 |
| Group employee costs during the year amounted to: | | |
| Wages and salaries | 211,856 | 198,969 |
| Employee Share Participation Scheme (Note 20) | 5,708 | 4,583 |
| Social welfare costs | 21,668 | 20,802 |
| Pension costs (Note 21) | 10,454 | 9,453 |
| | <u>249,686</u> | <u>233,807</u> |

Notes to the Consolidated Accounts (continued)

| 6. Taxation | 1998 | 1997 |
|--|---------------|----------------|
| | IR£000 | IR£000 |
| The tax charge/(credit) for the year comprises: | | |
| Ireland | | |
| Corporation tax at 32% (1997 : 36%) | 29 | (8) |
| Deferred tax arising from capital allowances | - | (6,000) |
| Share of tax - associated undertakings | 148 | 248 |
| Exceptional item - tax on disposal of Group undertakings | - | 600 |
| | <u>177</u> | <u>(5,160)</u> |
| Overseas | | |
| Corporation tax | 814 | 3,008 |
| Adjustments relating to previous years | (603) | - |
| Deferred tax arising from capital allowances | 239 | - |
| | <u>627</u> | <u>(2,152)</u> |

The charge for corporation tax has been reduced by the utilisation of tax losses and free depreciation carried forward from previous years.

| 7. Earnings/(Loss) per share | 1998 | 1997 |
|---|-----------------------|-----------------|
| Profit/(loss) for the year (IR£000) | <u>53,732</u> | <u>(45,929)</u> |
| Weighted average number of shares in issue ('000) | <u>251,135</u> | <u>248,341</u> |
| Earnings/(loss) per share (pence) | <u>21.4p</u> | <u>(18.5)p</u> |

| 8. Tangible Assets | Flight Equipment | Property Freehold/ Leasehold | Ground Equipment | Other Equipment | Total |
|---|---------------------|------------------------------------|---------------------|--------------------|----------------|
| Group | IR£000 | IR£000 | IR£000 | IR£000 | IR£000 |
| Cost | | | | | |
| Beginning of year | 469,118 | 70,020 | 52,932 | 36,885 | 628,955 |
| Additions | 61,489 | 2,623 | 8,580 | 4,641 | 77,333 |
| Disposals | (36,289) | (41,914) | (14,734) | (12,247) | (105,184) |
| Foreign exchange | (3,974) | - | 3 | 52 | (3,919) |
| End of year | <u>490,344</u> | <u>30,729</u> | <u>46,781</u> | <u>29,331</u> | <u>597,185</u> |
| Depreciation | | | | | |
| Beginning of year | 161,191 | 55,761 | 38,284 | 24,915 | 280,151 |
| Charge for year | 24,452 | 2,659 | 4,080 | 3,135 | 34,326 |
| Exceptional writedown | 4,736 | - | - | - | 4,736 |
| Disposals | (20,680) | (40,049) | (12,475) | (9,127) | (82,331) |
| Foreign exchange | (1,594) | - | 1 | 31 | (1,562) |
| End of year | <u>168,105</u> | <u>18,371</u> | <u>29,890</u> | <u>18,954</u> | <u>235,320</u> |
| Net Book Value | | | | | |
| End of year | <u>322,239</u> | <u>12,358</u> | <u>16,891</u> | <u>10,377</u> | <u>361,865</u> |
| Beginning of year | <u>307,927</u> | <u>14,259</u> | <u>14,648</u> | <u>11,970</u> | <u>348,804</u> |
| Leased assets included in the above: | | | | | |
| Net book value - end of year | <u>192,449</u> | <u>-</u> | <u>-</u> | <u>15</u> | <u>192,464</u> |
| Net book value - beginning of year | <u>210,378</u> | <u>-</u> | <u>-</u> | <u>17</u> | <u>210,395</u> |

9. Financial Assets**Group**Investments
IR£000

The movement for the year was as follows:

| | |
|---------------------------|-----------------|
| Beginning of year | 1,624 |
| Share of profits for year | 1,046 |
| Transfer to debtors | (1,046) |
| Disposals | (1,624) |
| End of year | <u><u>-</u></u> |

On 31 December, 1998, the Group sold its remaining 10% interest in its former subsidiary, Lufthansa Airmotive Ireland Holdings Limited ("Airmotive"). Throughout 1998, the Group had a representative on the board of directors of Airmotive and its relationship with the majority shareholder was governed by a shareholders' agreement, which included a predefined dividend policy. The Group's interest in Airmotive has been accounted for under the equity method of accounting.

CompanyShares in subsidiary
undertakings
IR£000**Cost**At beginning and end of year 258,710**Provisions**At beginning and end of year 90,000**Net Book Value**31 December 1998 and 31 December 1997 168,710

A list of the Principal Group Companies at 31 December, 1998, their principal activities, country of incorporation, and the Group holding percentage is set out in Note 24.

10. Stocks

| | 1998 IR£000 | 1997 IR£000 |
|----------------------------|---------------------|----------------------|
| Consumable aircraft spares | 1,784 | 8,359 |
| Work-in-progress | - | 3,435 |
| Other stocks | <u>2,690</u> | <u>2,562</u> |
| | <u><u>4,474</u></u> | <u><u>14,356</u></u> |

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

11. Debtors

| | 1998 IR£000 | 1997 IR£000 |
|---|-----------------------|-----------------------|
| Amounts falling due within one year: | | |
| Trade debtors | 65,552 | 48,899 |
| Other debtors | 26,919 | 34,031 |
| Prepayments and accrued income | 28,080 | 23,832 |
| Value Added Tax | <u>2,485</u> | <u>2,781</u> |
| | <u>123,036</u> | <u>109,543</u> |
| Amounts falling due after more than one year: | | |
| Other debtors | <u>4,741</u> | <u>19,933</u> |
| | <u><u>127,777</u></u> | <u><u>129,476</u></u> |

Notes to the Consolidated Accounts (continued)

12. Cash, short-term deposits and liquid resources

| | 1998 IR£000 | 1997 IR£000 |
|---|------------------------------|----------------|
| Cash and demand deposit balances | 9,392 | 9,919 |
| Other deposit balances and liquid resources | 194,922 | 206,797 |
| | 204,314 | 216,716 |
| Restricted cash deposit balances held to repay certain finance lease obligations (a) | 122,303 | 116,343 |
| Other restricted deposits (b) | 14,464 | 22,115 |
| | 136,767 | 138,458 |
| | 341,081 | 355,174 |

(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 which generally approximate seven years.

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

13. Creditors: Amounts falling due within one year

| | 1998 IR£000 | 1997 IR£000 |
|--|------------------------------|----------------|
| Bank loans and overdrafts (Note 14) | 18,100 | 29,628 |
| Finance lease obligations (Note 14) | 16,700 | 21,738 |
| Trade creditors | 30,879 | 29,927 |
| Accruals and deferred income | 93,052 | 90,174 |
| Passenger and Cargo sales in advance | 106,260 | 76,920 |
| Taxation and Social Welfare (a) | 14,768 | 23,329 |
| Other creditors | 8,676 | 11,865 |
| | 288,435 | 283,581 |
| (a) Taxation and Social Welfare creditors include: | | |
| PAYE | 543 | 5,746 |
| Social Welfare | 310 | 3,413 |
| Overseas taxation | 13,107 | 13,058 |
| Value Added Tax | 141 | 389 |
| Corporation tax | 667 | 723 |
| | 14,768 | 23,329 |

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

| | 1998 | 1997 |
|---|-----------------|----------|
| | IR£000 | IR£000 |
| Loan capital | | |
| Repayable - within one year (Note 13) | 18,100 | 29,628 |
| - from one to two years | 1,230 | 12,984 |
| - from two to five years | 20,468 | 14,201 |
| - after five years | 24,589 | 9,210 |
| Irredeemable capital (a) | 5,000 | 5,000 |
| | 69,387 | 71,023 |
| Included in Creditors falling due within one year (Note 13) | (18,100) | (29,628) |
| | 51,287 | 41,395 |
| Finance lease obligations | | |
| Repayable - within one year (Note 13) | 16,700 | 21,738 |
| - from one to two years | 34,395 | 16,676 |
| - from two to five years | 99,184 | 122,256 |
| - after five years | 51,594 | 73,797 |
| | 201,873 | 234,467 |
| Included in Creditors falling due within one year (Note 13) | (16,700) | (21,738) |
| | 185,173 | 212,729 |
| | 236,460 | 254,124 |

- (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 7.25% per annum (1997 - 7.25% per annum).
- (b) Loan capital and lease obligations of IR£225 million (1997 - IR£251m) are secured on various assets of the Group, principally aircraft. Repayments of capital and interest in respect of loan capital of IR£0.1 million (1997 - IR£0.2m) are guaranteed by the Irish Government.
- (c) Loan capital and lease obligations of IR£155 million (1997 - IR£269m) at 31 December, 1998 are denominated in various foreign currencies, including Sterling and Yen.

15. Investment Grants

| | 1998 | 1997 |
|--|----------------|---------|
| | IR£000 | IR£000 |
| Capital grants | | |
| Beginning of year | 3,406 | 12,100 |
| Disposals | (3,283) | (6,123) |
| Transfer to accruals and deferred income | (123) | (2,571) |
| End of year | - | 3,406 |
| Amortisation | | |
| Beginning of year | 924 | 5,831 |
| Amortised, net | 76 | 686 |
| Disposals | (1,000) | (5,593) |
| End of year | - | 924 |
| Net book value | - | 2,482 |

Notes to the Consolidated Accounts (continued)

16. Provisions for Liabilities and Charges

| | Group Restructuring Costs | Aircraft Maintenance | Deferred Taxation | Aircraft Operating Lease Equalisation | Exit from Maintenance Activities | Other | Total |
|--|---------------------------------|-------------------------|----------------------|--|--|---------------|----------------|
| | (a) IR£000 | IR£000 | IR£000 | IR£000 | (b) IR£000 | (c) IR£000 | IR£000 |
| Beginning of year | 39,620 | 41,668 | 351 | 7,388 | 55,000 | 12,180 | 156,207 |
| Charge for year | - | 21,511 | 239 | 28,428 | - | 5,234 | 55,412 |
| Expended during the year | (4,115) | (19,983) | (7) | (28,563) | (47,974) | (1,925) | (102,567) |
| Transfer from/(to) accruals and deferred income | 3,274 | - | - | - | (2,026) | - | 1,248 |
| Disposals | (5,816) | (3,868) | - | - | - | - | (9,684) |
| Reclassifications | 5,000 | - | - | - | (5,000) | - | - |
| Other | - | 94 | (64) | (448) | - | 47 | (371) |
| End of year | <u>37,963</u> | <u>39,422</u> | <u>519</u> | <u>6,805</u> | <u>-</u> | <u>15,536</u> | <u>100,245</u> |

(a) The balance at 31 December, 1998 comprises provisions for the estimated costs of the various measures associated with the repositioning of the Group's operations in line with market demands.

(b) This relates to a provision for the costs associated with exiting from aircraft maintenance activities.

(c) This mainly relates to expected costs of terminating financing arrangements in relation to aircraft sold in 1994, frequent flyer and post-retirement benefit provisions.

| | 1998 IR£000 | 1997 IR£000 |
|--|----------------|----------------|
| The deferred tax provision comprises: | | |
| Excess of tax allowances over book depreciation of fixed assets | <u>519</u> | <u>351</u> |

The amounts of unprovided deferred taxation are as follows:

| | | |
|--|----------------------|---------------|
| Excess of tax allowances over book depreciation of fixed assets | 66,080 | 56,043 |
| Tax effect of losses carried forward | (19,600) | (16,647) |
| Other provisions | (8,400) | (10,880) |
| | <u>38,080</u> | <u>28,516</u> |

The amount of unprovided deferred taxation has been calculated using current tax rates, which in the case of Ireland is 28%.

17. Called-Up Share Capital

| | Number | IR€000 |
|---|--------------------|----------------|
| Authorised: | | |
| Ordinary shares of IR€1 each | 485,000,000 | 485,000 |
| Redeemable Ordinary shares of IR€1 each | <u>15,000,000</u> | <u>15,000</u> |
| | <u>500,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of IR€1 each | | |
| Beginning of year | 249,708,610 | 249,709 |
| Issued during year (a) | <u>4,099,242</u> | <u>4,099</u> |
| End of year | <u>253,807,852</u> | <u>253,808</u> |

(a) On 27 August, 1998 an additional 4,099,242 Ordinary shares of IR€1 each were issued to employees under the Employee Share Participation Scheme (Note 20).

18. Minority Interests

| | 1998 IR€000 | 1997 IR€000 |
|-----------------------------------|------------------------------|----------------|
| Beginning of year | 287 | 1,212 |
| Share of retained profit for year | 441 | 82 |
| Other movements | 707 | (1,007) |
| End of year | <u>1,435</u> | <u>287</u> |

19. Consolidated Cash Flow Statement**A. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities**

| | 1998 IR€000 | 1997 IR€000 |
|--|------------------------------|----------------|
| Operating profit | 45,479 | 39,490 |
| Depreciation of tangible fixed assets | 34,326 | 34,640 |
| Amortisation of investment grants | (76) | (686) |
| Movement in provisions | 5,044 | 9,942 |
| Increase in stocks | (74) | (4,502) |
| Increase in debtors | (5,911) | (38,757) |
| Increase in creditors | <u>37,241</u> | <u>34,496</u> |
| Net Cash Inflow from Operating Activities | <u>116,029</u> | <u>74,623</u> |

Notes to the Consolidated Accounts (continued)

19. Consolidated Cash Flow Statement (continued)

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

| | 1998 IR€000 | 1997 IR€000 |
|--|-----------------|-----------------|
| Returns on investments and servicing of finance | | |
| Interest received | 26,738 | 21,176 |
| Interest paid | (7,474) | (8,360) |
| Finance lease interest paid | (14,458) | (13,581) |
| Dividends paid to minorities | - | (622) |
| | <u>4,806</u> | <u>(1,387)</u> |
| Net cash inflow/(outflow) for returns on investments and servicing of finance | | |
| Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (77,333) | (58,458) |
| Sale of tangible fixed assets | 1,155 | 7,520 |
| | <u>(76,178)</u> | <u>(50,938)</u> |
| Net cash outflow for capital expenditure and financial investment | | |
| Acquisitions and Disposals | | |
| Sale of financial fixed assets: | | |
| Maintenance activities | (33,506) | 17,618 |
| GPA Group | 7,735 | - |
| Other | 1,395 | 2,698 |
| | <u>(24,376)</u> | <u>20,316</u> |
| Net cash (outflow)/inflow from acquisitions and disposals | | |
| Financing | | |
| Capital element of finance lease payments | (19,332) | (20,481) |
| New loan capital | - | 2,269 |
| Repayment of loan capital | (25,627) | (57,354) |
| Decrease/(Increase) in restricted deposits | 8,842 | (22,734) |
| | <u>(36,117)</u> | <u>(98,300)</u> |
| Net cash outflow from financing | | |

C. Analysis of Changes in Net Funds (Debt)

| | Net Funds (Debt) 01 Jan 98 IR€000 | Cash Flow IR€000 | Exchange Movement IR€000 | Other Non-Cash Changes IR€000 | Net Funds (Debt) 31 Dec 98 IR€000 |
|--|--|---------------------|--------------------------------|--|--|
| Cash | | | | | |
| Cash in hand, at bank | 9,919 | (592) | 65 | - | 9,392 |
| Overdrafts | (12,655) | (5,682) | 627 | - | (17,710) |
| | <u>(2,736)</u> | <u>(6,274)</u> | <u>692</u> | <u>-</u> | <u>(8,318)</u> |
| Finance | | | | | |
| Debt due within 1 Year | (16,973) | 16,583 | - | - | (390) |
| Debt due after 1 Year | (41,395) | 9,044 | 531 | (19,467) | (51,287) |
| Finance leases | (234,467) | 19,332 | (6,205) | 19,467 | (201,873) |
| Restricted deposits | 138,458 | (8,842) | 7,151 | - | 136,767 |
| | <u>(154,377)</u> | <u>36,117</u> | <u>1,477</u> | <u>-</u> | <u>(116,783)</u> |
| Liquid Resources | | | | | |
| Other cash deposits and liquid resources | 206,797 | (9,809) | (2,066) | - | 194,922 |
| Total | <u>49,684</u> | <u>20,034</u> | <u>103</u> | <u>-</u> | <u>69,821</u> |

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 all 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 IR£12.2 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 employees' share of the Group's profits for 1998 cannot exceed IR£5.71 million, which represents 10% of the Group's profit before tax and exceptional items of IR£57.08 million. This is arrived at by adjusting the Group's profit on ordinary activities before taxation of IR£54.8 million for net exceptional gains of IR£3.43 million (Note 2) and the charge of IR£5.71 million for the employees' share of profits.

Since the inception of the Scheme, 10,197,800 ordinary shares in Aer Lingus Group plc have been issued to the Trustees of the Scheme for appropriation to employees. As the maximum number of shares which can be issued under the Scheme is 12,180,503, the remaining number of shares to be issued is restricted to 1,982,703. In addition, the Trustees of the Scheme are required to purchase any unsold shares offered for sale by former employees prior to the date in 1999 on which the shares are allocated to members of the Scheme in respect of the profit share for the year ended 31 December, 1998 (the "Allocation Date"). The maximum number of shares available for allocation to employees under the Scheme in respect of the profit share for the year ended 31 December, 1998 comprises the unissued shares (1,982,703) and any shares purchased by the Trustees prior to the Allocation Date.

The profit share for the year ended 31 December, 1998 will therefore comprise cash (which cannot exceed 5% of the Group's profit before tax and exceptional items - IR£2.855 million) and the number of shares available to the Trustees, valued at market value (which must be agreed with the tax authorities) or IR£1 each, whichever is higher, subject to a maximum profit share (cash and shares) of IR£5.71 million. Provision has been made in these accounts for the maximum amount payable. However, as the final profit share cannot be determined until the Allocation Date, which is after these accounts are finalised, it is possible that the final profit share will be less than the amount provided. Any overprovision will be adjusted in the accounts for the year ending 31 December, 1999.

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

| | Number of Shares million | Cash IR£m |
|------------------------------------|--------------------------------|--------------|
| Maximum entitlement | 12.2 | 12.2 |
| Distributions made: | | |
| 1996 (in respect of 1995) | (2.7) | (0.5) |
| 1997 (in respect of 1996) | (3.4) | (0.7) |
| 1998 (in respect of 1997) | <u>(4.1)</u> | <u>(0.5)</u> |
| Balance available for distribution | <u>2.0</u> | <u>10.5</u> |

Notes to the Consolidated Accounts (continued)

21. Pensions

The Group operates a number of externally funded defined benefit pension schemes for the majority of its employees.

Regular actuarial valuations are carried out, normally every three years, in respect of the schemes. The latest actuarial reports, based on valuations at dates ranging from 31 March, 1997 to 1 April, 1998, were completed by independent actuaries and disclosed the schemes to have a surplus of assets over liabilities. The principal actuarial method used was the Aggregate Method which involved determining appropriate future Group contribution rates designed to fund the projected liabilities of the schemes over the remaining working lifetime of the current members. The primary financial assumption underlying the actuarial valuations was that the yield on the schemes' investments will earn a real rate of investment return of 2% per annum over general salary inflation for members. No explicit provision was made for future pension increases. The total market value of the assets of the schemes at the valuation dates was IR£922 million and the level of funding was 117%. Actuarial reports are not available for public inspection.

The Group's pension contributions charged for the year were IR£10.5 million (1997 - IR£9.5m), based on rates as advised by the actuaries. An amount of IR£2.5 million (1997 - IR£3.5m) is included in Creditors, being the excess of the accumulated pension cost together with other pension liabilities over the amounts paid to the schemes at 31 December, 1998.

22. Guarantees and Other Financial Commitments

(a) Capital commitments

At 31 December, 1998 the Group had capital commitments as follows:

| | 1998 IR£000 | 1997 IR£000 |
|-----------------------------------|----------------|----------------|
| Contracted for but not provided | | |
| - Aircraft and equipment | 249,127 | 47,240 |
| - Other | 8,596 | 3,135 |
| Authorised but not contracted for | | |
| - Aircraft and equipment | 283 | 17,814 |
| - Other | 3,498 | 9,666 |
| | <u>261,504</u> | <u>77,855</u> |

Of the total capital commitments of IR£261.5 million, the Group expects IR£118 million to be spent in 1999.

(b) Lease commitments

At 31 December, 1998 the Group had annual commitments under operating leases as set out below:

| | Property IR£000 | Aircraft IR£000 | Plant and Machinery IR£000 |
|--------------------------------|--------------------|--------------------|----------------------------------|
| Operating leases which expire: | | | |
| Within 1 year | 3,240 | 12,102 | 513 |
| Between 2 and 5 years | 584 | 49,385 | 56 |
| After 5 years | 1,442 | 15,662 | - |
| | <u>5,266</u> | <u>77,149</u> | <u>569</u> |

(c) Contingent liabilities

- (i) The Company has irrevocably guaranteed the liabilities as defined in Section 5 (c) of the Companies (Amendment) Act, 1986 of various subsidiary undertakings incorporated in Ireland.
- (ii) There are certain legal and other claims, which arise from the Group's activities which the Directors consider will not 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, 1998 are forward purchases of US Dollars 162 million and forward sales of Sterling 93 million.

23. Related Party Transactions

(a) Ownership of the Company

95.98% 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, ESB and Telecom Eireann). Purchases of services from these entities during the year were less than 5% of group operating costs.

(c) Deposits with the National Treasury Management Agency of Ireland and with financial institutions owned by the Irish Government

In the ordinary course of its business the Group deposits funds with the National Treasury Management Agency of Ireland and financial institutions owned by the Irish Government (ACC Bank and ICC Bank). At 31 December, 1998 deposits with these entities amounted to IR£53 million.

24. Principal Group Companies

| | Country of Incorporation | Principal Activity | Group Holding % |
|---|-----------------------------|--|--------------------|
| Aer Lingus Limited | Ireland | UK and European Services | 100 |
| Aer Lingus Shannon Limited | Ireland | Transatlantic Services | 100 |
| Aer Lingus Commuter Limited | Ireland | Domestic and Provincial UK Services | 100 |
| Aer Lingus Beachey Limited | Isle of Man | Aircraft Financing | 100 |
| Compania Hispania Irlandesa de Aviacion SA (trading as Futura) | Spain | European Charter Services | 85 |
| Timas Limited (trading as Galileo Ireland) | Ireland | Reservations Systems Support | 75 |

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

Group Financial Record - Euros

| | 1998 | 1997 |
|---|------------------|-----------|
| | € 000 | € 000 |
| Summarised Profit and Loss Account | | |
| Turnover | | |
| - continuing operations | 1,055,942 | 934,847 |
| - discontinued operations | 88,656 | 83,832 |
| | 1,144,598 | 1,018,679 |
| Cost of sales | (825,699) | (722,242) |
| Gross Profit | 318,899 | 296,437 |
| Other operating expenses | | |
| - operating | (253,905) | (240,476) |
| - employee participation | (7,248) | (5,819) |
| | (261,153) | (246,295) |
| Operating Profit/(Loss) | | |
| - continuing operations | 57,081 | 51,482 |
| - discontinued operations | 665 | (1,340) |
| | 57,746 | 50,142 |
| Share of operating profit in associates | 1,516 | 2,652 |
| Exceptional items | 4,351 | (113,320) |
| Net interest receivable/(payable) | 5,968 | (420) |
| Profit/(Loss) before tax | 69,581 | (60,946) |
| Taxation | (796) | 2,732 |
| Profit/(Loss) after tax | 68,785 | (58,214) |
| Minority interests | (560) | (104) |
| Profit/(Loss) for the year | 68,225 | (58,318) |
| Summarised Balance Sheet | | |
| Fixed Assets | 459,474 | 444,952 |
| Net current assets | 234,770 | 273,533 |
| Creditors: amounts falling due after more than one year | (275,524) | (322,671) |
| Provisions and investment grants | (152,003) | (201,493) |
| | 266,717 | 194,321 |
| Shareholders' funds | 264,895 | 193,957 |
| Minority interests | 1,822 | 364 |
| | 266,717 | 194,321 |