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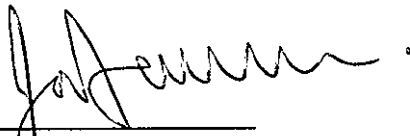
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AER LINGUS GROUP PUBLIC LIMITED COMPANY

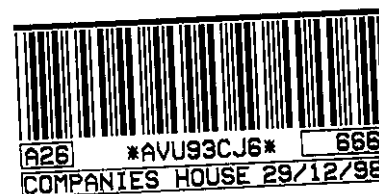
REPORT AND CONSOLIDATED ACCOUNTS

YEAR ENDED 31 DECEMBER 1997

CERTIFIED A TRUE COPY AS LAID BEFORE THE ANNUAL GENERAL MEETING



JOHN O'DONOVAN
COMPANY SECRETARY



Aer Lingus Group plc

Report and Consolidated Accounts

Year Ended 31 December 1997

Aer Lingus Group plc
Report and Consolidated Accounts
Year Ended 31 December, 1997

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Aer Lingus Group plc
Directors' Report
Year Ended 31 December, 1997

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, 1997.

Principal Activities and Business Review

The principal activities of the Group during the year were as follows:

- a) Passenger and Cargo Services - provision of air transportation services on routes to the UK, mainland Europe, the US and within Ireland.
- b) Airline Services - maintenance activities and other support services to the aviation industry.

During the year, the Group sold 90% of its interest in its aircraft engine overhaul business, Airmotive Ireland (Holdings) limited, to Lufthansa Technik AG.

Results for the Year and State of Affairs as at 31 December, 1997

The consolidated profit and loss account for the year ended 31 December, 1997 and the consolidated balance sheet at that date are set out on pages 7 and 8. The loss for the year, after net exceptional losses of IR£89.2 million, amounted to IR£45.9 million (1996 - profit of IR£32.0m, after net exceptional profits of IR£4.4m).

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

	IR£ million
Balance, 31 December, 1996	(58.5)
Loss for the year	(45.9)
Other movements, net	7.4
Balance, 31 December, 1997	(97.0)
	=====

As a result of the loss for the year of IR£45.9 million, currency translation and other adjustments of IR£4.8 million and the issue of 3.4 million ordinary shares of IR£1 each under the Employee Share Participation

Scheme, shareholders' funds decreased by IR£37.7 million since 31 December, 1996. 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, 1997.

Important Events Since 31 December, 1997

Subsequent to the balance sheet date, the Directors resolved that the Group should exit from its aircraft maintenance activities. Discussions are ongoing in relation to the nature and timing of the intended exit. Provision has been made, as an exceptional item, for the estimated costs of exit.

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, were also active during the year. As indicated below four employees served on the Board throughout the year under the provisions of the Acts.

As further explained in Note 22 to the accounts, an Employee Share Participation Scheme was established on 13 March, 1996. The employees' share of the Group's profit before tax and exceptional items amounts to IR£4.58 million in 1997 (1996 - IR£4.05m) 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)
David Austin
Ella Casey
Aidan Dolan *
Rose Hynes
Angela Lyne
Edward MacRedmond RIP

Jim O'Leary
Donal O Siochain *
William Phelan *
Peter Quigley *
Martin Rafferty
Desmond Richardson
Patrick Wright

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

The Directors note with regret the death of Edward MacRedmond on 01 October 1997. Martin Rafferty retired from the Board on 03 February 1997. Rose Hynes and Desmond Richardson were appointed to the Board on 29 April 1997 and 13 November 1997 respectively. Following the Worker Director elections in 1998, Aidan Dolan, Donal O'Siochain, 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 as Worker Directors on 01 May 1998.

Directors' and Secretary's Shareholdings and Other Interests

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 1997 in the share capital of the Company or any Group undertaking at 01 January 1997 and 31 December 1997 were:

Aer Lingus Group plc		
Ordinary IR£1 Shares		
	31 December 1997	01 January 1997
Aidan Dolan	1,150	520
Donal O' Siochain	1,150	520
William Phelan	1,150	520
Peter Quigley	1,150	520
John O'Donovan (Secretary)	630	-

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 1997.

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

Directors' Responsibility Statement

As required by 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.

Auditors

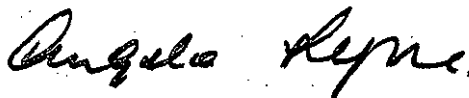
The Auditors, Price Waterhouse, who now practise in the name PricewaterhouseCoopers, will continue in office in accordance with the provisions of S.160 of the Companies Act, 1963.

ON BEHALF OF THE DIRECTORS

B.M. CAHILL CHAIRMAN



A. LYNE DIRECTOR



16 July 1998

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I.D.E. Box No. 137
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Auditors' Report

To the members of Aer Lingus Group plc

We have audited the accounts on pages 7 to 38 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 17.

Respective responsibilities of directors and auditors

As described on pages 3 and 4 the Directors are responsible for the preparation of 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.

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the estimated losses expected to arise from the implementation of the Board's decision to exit from the aircraft maintenance business and the fundamental uncertainties in relation thereto. The circumstances giving rise to the estimate and the associated uncertainties are set out in note 2. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the Company and Group at 31 December 1997 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 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 1 to 4 is consistent with the accounts.

The net assets of the Company, as stated in the balance sheet on page 9 , 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 1997 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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors


Dublin

16 July 1998

Aer Lingus Group plc
Consolidated Profit and Loss Account
Year Ended 31 December, 1997

	Notes	1997 IR£000	1996 IR£000
Turnover - continuing operations	1	802,275	765,678
Cost of sales - operating		(568,812)	(557,079)
- exceptional items	2	-	4,194
	1	(568,812)	(552,885)
Gross Profit		233,463	212,793
Other operating expenses - operating		(189,390)	(166,939)
- employee participation	22	(4,583)	(4,051)
	1	(193,973)	(170,990)
Operating Profit - continuing operations	1	39,490	41,803
Share of operating profit in associates		2,089	185
		41,579	41,988
Exceptional Items:			
(Loss)/Profit on exit from non-core activities	2	(88,259)	(723)
Profit on disposal of Fixed Assets	2	5,012	978
Writedown of Fixed Assets	2	(6,000)	-
(Loss)/Profit on Ordinary Activities before Interest		(47,668)	42,243
Interest receivable and similar income		23,560	24,944
Interest payable and similar charges	3	(23,891)	(26,279)
(Loss)/Profit on Ordinary Activities before Taxation	4	(47,999)	40,908
Taxation	6	2,152	(8,490)
(Loss)/Profit on Ordinary Activities after Taxation		(45,847)	32,418
Minority interests	20	(82)	(424)
(Loss)/Profit for the Year		(45,929)	31,994
		=====	=====
(Loss)/Earnings per Share (Pence)	7	(18.5)p	13.0p
		=====	=====

Movements on the profit and loss account are summarised on page 11



B.M. CAHILL CHAIRMAN


A. LYNE DIRECTOR

Approved by the Board of Directors on 16 July 1998

Aer Lingus Group plc
Consolidated Balance Sheet
31 December, 1997

	Notes	1997 IR£000	1996 IR£000
Fixed Assets			
Intangible assets	8	2,507	3,423
Tangible assets	9	348,804	330,845
Financial assets	10	1,624	3,486
		-----	-----
		352,935	337,754
		-----	-----
Current Assets			
Stocks	11	14,356	26,011
Debtors	12	126,969	99,150
Cash, short term deposits and liquid resources	13	355,174	378,513
		-----	-----
		496,499	503,674
Creditors: Amounts falling due within one year	14	(283,581)	(296,815)
		-----	-----
Net Current Assets		212,918	206,859
		-----	-----
Total Assets less Current Liabilities		565,853	544,613
Creditors: Amounts falling due after more than one year	15	(254,124)	(239,936)
Investment Grants	16	(2,482)	(6,269)
Provisions for Liabilities and Charges	17	(156,207)	(106,738)
		-----	-----
Net Assets		153,040	191,670
		=====	=====
Capital and Reserves			
Called-up share capital	18	249,709	246,337
Revaluation reserve	19	-	2,685
Profit and loss account		(96,956)	(58,564)
		-----	-----
Shareholders' funds - equity interests		152,753	190,458
Minority Interests	20	287	1,212
		-----	-----
		153,040	191,670
		=====	=====


B.M. CAHILL CHAIRMAN


A. LYNE DIRECTOR

Approved by the Board of Directors on 16 July 1998.

Aer Lingus Group plc
Company Balance Sheet
31 December, 1997

	Notes	1997 IR£000	1996 IR£000
Fixed Assets			
Financial assets	10	168,710	168,710
		-----	-----
Creditors: Amounts falling due within one year			
Amounts due to subsidiary undertakings		(9,001)	(12,373)
		-----	-----
Net Current Liabilities		(9,001)	(12,373)
		-----	-----
Net Assets		159,709	156,337
		=====	=====
Capital and Reserves			
Called-up share capital	18	249,709	246,337
Profit and loss account		(90,000)	(90,000)
		-----	-----
Shareholders' Funds - equity interests		159,709	156,337
		=====	=====


B.M. CAHILL CHAIRMAN


A. LYNE DIRECTOR

Approved by the Board of Directors on 16 July 1998

Aer Lingus Group plc
Consolidated Cash Flow Statement
Year Ended 31 December, 1997

	Notes	1997 IR£000	1996 IR000
Net cash inflow from Operating Activities	21A	76,047	87,921
Returns on Investments and Servicing of Finance	21B	(1,387)	(5,254)
Taxation		(975)	760
Capital Expenditure and Financial Investment	21B	(52,362)	(7,312)
Acquisitions and Disposals	21B	20,316	189
Cash inflow before use of liquid resources and financing		41,639	76,304
Management of Liquid Resources		59,595	39,938
Financing - Decrease in debt	21B	(98,300)	(110,561)
Increase in cash in year		2,934	5,681
		=====	=====

Reconciliation of net cash flow to movement in net debt (Note 21C)

Increase in cash in the year	2,934	5,681
Cash outflow from decrease in debt and lease financing	98,300	110,561
New finance leases	(28,040)	-
Cash inflow from change in liquid resources	(59,595)	(39,938)
Change in net debt resulting from cash flows	13,599	76,304
Other movements, principally currency translation adjustments	(11,156)	4,488
Movement in net debt in the year	2,443	80,792
Net funds/ (debt) at 01 January	47,241	(33,551)
Net funds at 31 December	49,684	47,241
	=====	=====

Aer Lingus Group plc
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 items of income and expense for 1996 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, other than in the case of TEAM Aer Lingus Limited, where management accounts were used as audited statutory accounts were not available. 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.

Goodwill arising on consolidation (representing the excess of the fair value of the consideration for an acquisition over the fair value of the separable net assets acquired) is written off against reserves on acquisition. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited to reserves. The profit or loss on the disposal of subsidiaries or associated undertakings is determined, inter alia, by the inclusion in the profit and loss account of the attributable amount of goodwill previously written off against reserves.

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.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation is provided, using the liability method, on material timing differences except to the extent that it is not expected to become payable in the foreseeable future.

F Intangible Fixed Assets: Deferred Expenditure

Expenditure incurred on the training of new pilots is capitalised and amortised over a six year period commencing when training is completed. Expenditure on a new corporate identity is capitalised and amortised over periods averaging five years.

G 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 costs and related foreign currency liabilities are taken to reserves.

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.

Residual values and useful lives are reappraised regularly and fall in the following ranges:

	Useful life (Years)	Residual Value (% of cost)
Flight Equipment:		
Aircraft fleet and major spares	15 to 20	Nil
Rotable spares	5 to 20	Nil to 25%
Modifications to leased aircraft	Period of lease	Nil
Depreciable Property:		
Freehold	Principally 50	Nil
Leasehold	Period of lease	Nil
Equipment:		
Ground equipment	2 to 20	Nil
Other	3 to 10	Nil

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

H 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. 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.

I 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.

J 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.

K 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.

O 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 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 N). 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.

Aer Lingus Group plc
Notes to the Consolidated Accounts
Year Ended 31 December, 1997

1. Turnover and Operating Profit

	1997	1996
	IR£'000	IR£'000
Turnover		
- Passenger and Cargo Services	733,426	628,676
- Airline Services	<u>68,849</u>	<u>137,002</u>
	<u>802,275</u>	<u>765,678</u>
 Cost of Sales		
- operating	568,812	557,079
- exceptional	<u>-</u>	<u>(4,194)</u>
	<u>568,812</u>	<u>552,885</u>
 Operating Expenses		
- selling and marketing	104,698	89,836
- administrative	83,992	75,237
- distribution	700	1,826
- other	-	40
- employee participation	<u>4,583</u>	<u>4,051</u>
	<u>193,973</u>	<u>170,990</u>
 Operating Profit	<u><u>39,490</u></u>	<u><u>41,803</u></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 seriously prejudicial to the interest of the Group.

2. Exceptional Items

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

	1997 IR£000	1996 IR£000
Cost of Sales		
- B767 leases (a)	-	4,464
- Other TEAM costs	-	(270)
	-----	-----
	-	4,194
	-----	-----
(Loss)/Profit on Exit from Non-Core Activities		
- Exit from maintenance activities (b)	(90,437)	-
- Goodwill written off	-	(859)
- Other	2,178	136
	-----	-----
	(88,259)	(723)
	-----	-----
Profit on Disposal of Fixed Assets		
- Disposals of aircraft and flight equipment	5,012	978
	-----	-----
Writedown of Fixed Assets		
- Aircraft and Flight Equipment (c)	(6,000)	-
	-----	-----
Net Exceptional Items	(89,247)	4,449
	=====	=====

(a) Provisions set aside for estimated losses arising from future operating lease commitments on two B767 aircraft have been released to the profit and loss account following the termination of the lease agreements.

(b) The loss on exit from maintenance activities represents the estimated net profits and losses arising from the Group's intended exit from its aircraft maintenance activities and the disposal during 1997 of 90% of its interest in its engine maintenance subsidiary, Airmotive Ireland.

Auditors' remuneration	226	266
Directors' emoluments		
- fees	61	63
- other emoluments (including pension contributions)	177	159
- pensions paid to former directors	74	73

=====

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:

	1997 No.	1996 No.
Passenger and Cargo Services	6,531	6,214
Airline Services	1,777	2,202
	<hr/>	<hr/>
	8,308	8,416

=====

	1997 IR£'000	1996 IR£'000
Group employee costs during the year amounted to:		
Wages and salaries	198,969	180,126
Employee Share Participation Scheme (Note 22)	4,583	4,051
Social welfare costs	20,802	19,953
Pension costs (Note 23)	9,453	9,038
	<hr/>	<hr/>
	233,807	213,168

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6. Taxation

	1997 IR£000	1996 IR£000
The tax charge (credit) for the year comprises:		
Ireland		
Corporation tax at 36% (1996 : 38%)	(8)	147
Adjustments relating to previous years	-	156
Deferred tax arising from capital allowances	(6,000)	6,000
Share of tax - associated undertakings	248	-
Exceptional item - tax on disposal of Group undertakings	600	-
	<hr/>	<hr/>

	(5,160)	6,303
Overseas		
Corporation tax	3,008	2,030
Adjustments relating to previous years	-	97
Deferred tax arising from capital allowances	-	60
	-----	-----
	(2,152)	8,490
	=====	=====

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

7. (Loss)/Earnings Per Share

	1997	1996
(Loss)/Profit for the year (IR£000)	(45,929)	31,994
	-----	-----
Weighted average number of shares in issue ('000)	248,341	245,271
	-----	-----
(Loss)/Earnings per share (pence)	(18.5)p	13.0p
	=====	=====

8. Intangible Assets

	Deferred Expenditure	
	1997	1996
	IR£000	IR£000
Beginning of year	3,423	1,971
Additions	1,424	2,480
Amounts amortised	(1,093)	(1,028)
Transferred to tangible fixed assets	(1,247)	-
	-----	-----
End of year	2,507	3,423
	=====	=====

Deferred expenditure represents costs incurred, net of grants, on the training of pilots and expenditure on a new corporate identity.

10. Financial Assets

Group

The movement for the year was as follows:

	Associated Undertakings	Other Investments	Total
	IR£000	IR£000	IR£000
Beginning of year	3,486	-	3,486
Share of retained profits	1,841	-	1,841
Disposals	(8,374)	-	(8,374)
Transfers	<u>3,047</u>	<u>1,624</u>	<u>4,671</u>
End of year	<u>-</u>	<u>1,624</u>	<u>1,624</u>

On 01 January 1997, the Group sold 60% of its wholly owned subsidiary, Airmotive Ireland (Holdings) Limited and sold a further 30% in September 1997. The Group's interest has been accounted for under the equity method of accounting. Transfers represent the reclassification of the Group's interest, which was previously accounted for as a subsidiary.

Company	Shares in subsidiary undertakings
Cost	IR£000
At beginning and end of year	<u>258,710</u>
Provisions	
At beginning and end of year	<u>90,000</u>
Net Book Value	
31 December 1997 and 31 December 1996	<u>168,710</u>

A list of the Principal Group Companies at 31 December, 1997, their principal activities, country of incorporation, and the Group holding percentage is set out in Note 26.

11. Stocks

	1997	1996
	IR£000	IR£000
Consumable aircraft spares	8,359	19,161
Work-in-progress	3,435	4,818
Other stocks	2,562	2,032
	-----	-----
	14,356	26,011
	=====	=====

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

12. Debtors

	1997	1996
	IR£000	IR£000
Amounts falling due within one year:		
Trade debtors	48,899	68,154
Other debtors	34,031	18,494
Prepayments and accrued income	22,840	10,274
Value Added Tax	2,781	2,020
ACT recoverable	-	192
	-----	-----
	108,551	99,134
Amounts falling due after more than one year:		
Other debtors	18,418	16
	-----	-----
	126,969	99,150
	=====	=====

13. Cash, Short Term Deposits and Liquid Resources

	1997	1996
	IR£000	IR£000
Cash and demand deposit balances	9,919	9,401
Other deposit balances and liquid resources	206,797	264,641
	-----	-----
	<u>216,716</u>	<u>274,042</u>
Restricted cash deposit balances held		
to repay certain finance lease obligations (a)	116,343	86,087
Other restricted deposits (b)	22,115	18,384
	-----	-----
	138,458	104,471
	-----	-----
	355,174	378,513
	=====	=====

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

14. Creditors: Amounts falling due within one year

	1997	1996
	IR£000	IR£000
Bank loans and overdrafts (Note 15)	29,628	74,152
Finance lease obligations (Note 15)	21,738	17,184
Trade creditors	29,927	34,444
Accruals and deferred income	75,174	63,782
Passenger and Cargo sales in advance	76,920	65,559
Taxation and Social Welfare (a)	23,329	15,827
Other creditors	26,865	25,867
	-----	-----
	283,581	296,815
	=====	=====

14. Creditors - (continued)

(a) Taxation and Social Welfare creditors include:

	1997	1996
	IR£000	IR£000
PAYE	5,746	2,376
Social Welfare	3,413	1,714
Overseas taxation	13,058	11,186
Value Added Tax	389	329
Corporation tax	723	222
	-----	-----
	23,329	15,827
	=====	=====

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

	1997	1996
	IR£000	IR£000
Loan capital		
Repayable - within one year	29,628	74,152
- from one to two years	12,984	14,463
- from two to five years	14,201	16,392
- after five years	9,210	14,106
Irredeemable capital (a)	5,000	5,000
	-----	-----
	71,023	124,113
Included in Creditors falling due within one year (Note 14)	(29,628)	(74,152)
	-----	-----
	41,395	49,961
	-----	-----
Finance lease obligations		
Repayable - within one year (Note 14)	21,738	17,184
- from one to two years	16,676	16,641
- from two to five years	122,256	86,201
- after five years	73,797	87,133
	-----	-----
	234,467	207,159

15. Creditors - (continued)

Included in Creditors falling due
within one year (Note 14)

(21,738)	(17,184)
-----	-----
212,729	189,975
-----	-----
254,124	239,936
=====	=====

- (a) This loan, which is not repayable in the event of a winding up, was advanced by the principal shareholder (Note 25). Interest is payable thereon, as determined by the Minister for Finance from time to time, and the current rate is 7.25% per annum (1996 - 7.25% per annum).
- (b) Loan capital and lease obligations of IR£251million (1996 - IR£253m) are secured on various assets of the Group, principally aircraft. Repayments of capital and interest in respect of loan capital of IR£0.2 million (1996 - IR£0.2m) are guaranteed by the Irish Government.
- (c) Loan capital and lease obligations of IR£269 million (1996 - IR£220m) at 31 December, 1997 are denominated in various foreign currencies, principally Sterling, Deutsche Marks, Yen and French Francs.

16. Investment Grants

	1997	1996
	IR£000	IR£000
Capital grants		
Beginning of year	12,100	12,445
Disposals	(6,123)	-
Foreign exchange	-	(345)
Transfer to accruals and deferred income	(2,571)	-
	-----	-----
End of year	3,406	12,100
	-----	-----
Amortisation		
Beginning of year	5,831	5,992
Amortised, net	686	153
Disposals	(5,593)	-
Foreign exchange	-	(314)
	-----	-----
End of year	924	5,831
	-----	-----
Net book value	2,482	6,269
	=====	=====

17. Provisions for Liabilities and Charges

	Group Restructuring Costs	Aircraft Maintenance	Deferred Taxation	Aircraft Operating Lease Equalisation	Exit from maintenance activities	Other	Total
	(a)				(b)	(c)	
	IR£000	IR£000	IR£000	IR£000	IR£'000	IR£000	IR£000
Beginning of Year	48,734	36,430	6,344	5,128	-	10,102	106,738
Charge (Credit) for year	3,857	16,691	(6,000)	28,640	55,000	3,510	101,698
Expended during Year	(5,333)	(12,839)	-	(27,140)	-	(932)	(46,244)
Disposals	(7,638)	(2,648)	-	-	-	(834)	(11,120)
Other	-	4,034	7	760	-	334	5,135
End of Year	<u>39,620</u>	<u>41,668</u>	<u>351</u>	<u>7,388</u>	<u>55,000</u>	<u>12,180</u>	<u>156,207</u>

(a) The balance at 31 December 1997 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, travel award bonus scheme and other post-retirement benefit provisions.

The deferred tax provision comprises:

	1997 IR£000	1996 IR£000
Excess of tax allowances over book depreciation of fixed assets	351	6,274
Tax effect of losses carried forward	-	70
	<u>351</u>	<u>6,344</u>
	== ==	== ==

17. Provisions for Liabilities and Charges (continued)

The amounts of unprovided deferred taxation are as follows:

	1997	1996
	IR£000	IR£000
Excess of tax allowances over book depreciation of fixed assets	56,043	49,800
Tax effect of losses carried forward	(16,647)	(15,100)
Other provisions	(10,880)	(12,600)
	-----	-----
	28,516	22,100
	=====	=====

The amount of unprovided deferred taxation has been calculated using current tax rates.

18. 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	15,000,000	15,000
	-----	-----
	500,000,000	500,000
	=====	=====
Issued and fully paid:		
Ordinary shares of IR£1 each		
Beginning of year	246,336,922	246,337
Issued (a)	3,371,688	3,372
	-----	-----
End of year	249,708,610	249,709
	=====	=====

- (a) On 29 May 1997 an additional 3,371,688 Ordinary shares of IR£1 each were issued to employees under the Employee Share Participation Scheme (note 22)

19. Revaluation Reserve

	IR£000
Beginning of year	2,685
Transfer to profit and loss account	(2,685)

End of year	-
	== ==

20. Minority Interests

	1997 IR£000	1996 IR£000
Beginning of year	1,212	1,131
Additions	-	2
Share of retained profit for year	82	424
Other movements	(1,007)	(345)
	-----	-----
End of year	287	1,212
	== == ==	== == ==

21. Consolidated Cash Flow Statement

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

	1997 IR£000	1996 IR£000
Operating profit	39,490	41,803
Exceptional reduction in provisions credited to operating profit	-	(5,083)
Depreciation of tangible fixed assets	34,640	36,638
Amortisation of intangible fixed assets	1,093	1,028
Amortisation of investment grants	(686)	(153)
Movement in provisions, excluding deferred tax	9,942	(14,809)
Increase in stocks	(4,502)	(314)
Increase in debtors	(38,426)	(13,693)
Increase in creditors	34,496	42,504
	-----	-----
Net Cash Inflow from Operating Activities	76,047	87,921
	== == ==	== == ==

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

	1997	1996
	IR£000	IR£000
Returns on investments and servicing of finance		
Interest received	21,176	21,773
Interest paid	(8,360)	(12,725)
Finance lease interest paid	(13,581)	(14,302)
Dividends paid to minorities	(622)	-
	-----	-----
Net cash outflow from returns on investments and servicing of finance	(1,387)	(5,254)
	=====	=====
Capital expenditure and financial investment		
Acquisition of intangible fixed assets	(1,424)	(2,480)
Purchase of tangible fixed assets	(58,458)	(27,897)
Sale of tangible fixed assets	7,520	23,065
	-----	-----
Net cash outflow from capital expenditure and financial investment	(52,362)	(7,312)
	=====	=====
Acquisitions and Disposals		
Sale of financial fixed assets	20,316	189
	-----	-----
Net cash flow from acquisitions and disposals	20,316	189
	=====	=====

B. Analysis of Cash Flows for Headings netted in the Cash Flow Statement - (continued)

	1997	1996
	IR£000	IR£000
Financing		
Capital element of finance lease payments	(20,481)	(12,272)
New loan capital	2,269	901
Repayment of loan capital	(57,354)	(99,003)
Increase in restricted deposits	(22,734)	(187)
	-----	-----
Net cash outflow from financing	(98,300)	(110,561)
	=====	=====

C. Analysis of Changes in Net Funds (Debt)

	Net Funds (Debt) 01 Jan 97 IR£000	Cash Flow IR£000	Exchange Movement IR£000	Other Non-Cash Changes IR£000	Net Funds (Debt) 31 Dec 97 IR£000
CASH					
Cash in hand, at Bank	9,401	(358)	876	-	9,919
Overdrafts	<u>(14,704)</u>	<u>3,292</u>	<u>(1,243)</u>	-	<u>(12,655)</u>
	<u>(5,303)</u>	<u>2,934</u>	<u>(367)</u>	-	<u>(2,736)</u>
FINANCE					
Debt due within 1 Year	(59,448)	57,354	(416)	(14,463)	(16,973)
Debt due after 1 Year	(49,961)	(2,269)	(3,628)	14,463	(41,395)
Finance Leases	(207,159)	20,481	(19,749)	(28,040)	(234,467)
Restricted Deposits	<u>104,471</u>	<u>22,734</u>	<u>11,253</u>	-	<u>138,458</u>
	<u>(212,097)</u>	<u>98,300</u>	<u>(12,540)</u>	<u>(28,040)</u>	<u>(154,377)</u>
LIQUID RESOURCES					
Other cash deposits and liquid resources	<u>264,641</u>	<u>(59,595)</u>	<u>1,751</u>	-	<u>206,797</u>
TOTAL	<u><u>47,241</u></u>	<u><u>41,639</u></u>	<u><u>(11,156)</u></u>	<u><u>(28,040)</u></u>	<u><u>49,684</u></u>

22. Employee Share Participation Scheme

An Employee Share Participation Scheme (the "Scheme") was established by a Trust Deed executed on 13 March, 1996. The principal terms of the Scheme are as follows:

- all employees satisfying certain service criteria are entitled to share equally in 10% of the Group's profit before tax and exceptional items
- 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 (12.2million shares), no more shares may be issued to employees
- 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 1997 amounts to IR£4.58 million, which represents 10% of the Group's profit before tax and exceptional items of IR£45.83 million. This is arrived at by adjusting the Group's loss on ordinary activities before taxation of IR£47.99 million for net exceptional items of IR£89.24 million (Note 2) and the charge of IR£4.58 million for the employees' share of profits. The employees' share has been charged in the Group's profit and loss account and will be discharged in the form of shares in Aer Lingus Group plc or in cash in 1998 in accordance with the rules of the Scheme.

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):	<u>(3.4)</u>	<u>(0.7)</u>
Balance available for distribution	<u>6.1</u>	<u>11.0</u>

The allocation of the 1997 provision of IR£4.58million between shares and cash will be determined during 1998 in accordance with the rules of the Scheme.

23. 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 were based on valuations at dates ranging from 31 March, 1996 to 31 March, 1997 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£926 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£9.5 million (1996 - IR£9.0m), based on rates as advised by the actuaries. An amount of IR£3.5 million (1996 - IR£5.1m) 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 1997.

24. Guarantees and Other Financial Commitments

(a) Capital commitments

At 31 December, 1997 the Group had capital commitments as follows:

	1997	1996
	IR£000	IR£000
Contracted for but not provided		
- Aircraft and equipment	47,240	41,404
- Other	3,135	6,606
Authorised but not contracted for		
- Aircraft and equipment	17,814	-
- Other	9,666	9,084
	-----	-----
	77,855	57,094
	=====	=====

24. Guarantees and Other Financial Commitments - (continued)

(b) Lease commitments

At 31 December, 1997 the Group had annual commitments under operating leases as set out below:

	Property	Aircraft	Other Equipment
	IR£000	IR£000	IR£000
Operating leases which expire:			
Within 1 year	2,774	7,211	587
Between 2 and 5 years	1,215	46,003	109
After 5 years	2,347	11,806	-
	-----	-----	-----
	6,336	65,020	696
	=====	=====	=====

(c) Contingent liabilities

- (i) Grants totalling IR£3.4 million (1996 - IR£6.0m) are subject to repayment in whole or in part in certain circumstances, the principal being the disposal of grant-aided assets or the termination of grant-aided activities, or in the event that certain employment based targets are not achieved.
- (ii) 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.
- (iii) 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.

24. 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, 1997 are forward purchases of US Dollars 143 million, Spanish Pesetas 5,447 million and French Francs 445 million, and forward sales of Sterling 94 million and Deutsche Marks 63 million.

25. Related Party Transactions

(a) Ownership of the Company

97.56% 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 financial institutions including the National Treasury Management Agency of Ireland and financial institutions owned by the Irish Government (ACC Bank and ICC Bank). At 31 December 1997 deposits with these entities amounted to IR£58.2 million.

26. Principal Group Companies (Note A)

	Country of Incorporation	Principal Activity	Group Holding %
Passenger And Cargo Services			
Aer Lingus Limited	Ireland	UK and European Services	100
Aer Lingus Shannon Limited	Ireland	US Transatlantic Services	100
Aer Lingus Commuter Limited	Ireland	Domestic and Provincial UK Services	100
Aer Lingus Beachey Limited	Isle of Man	Aircraft Financing	100
Fernley Airport Services Limited	England	Aircraft Cleaning Services	100
Compania Hispania Irlandesa de Aviacion SA ("Futura")	Spain	European Charter Services	85
Timas Limited	Ireland	Reservations Systems Support	75
Airline Services			
TEAM Aer Lingus Limited	Ireland	Aircraft Maintenance	100
SRS Aviation (Ireland) Limited	Ireland	Ground Handling and Aircraft Maintenance	100

Note A: Full details of all group companies will be filed with the Company's annual return.