

Annual Report and Financial Statements 2005

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Iarnród Éireann would like to acknowledge funding on major projects by the Irish Government under the National Development Plan 2000-2006, as well as co-funding by the European Union.

Photographer: Mark McCall

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Operations Review

2005: Continued development and expansion of services

- Iarnród Éireann results for 2005 show an overall surplus of €7.5 million, (after exceptional items of €7.9 million), compared to a net deficit of €16.7 million in 2004, an improvement of €24.2 million.
- Iarnród Éireann continued to grow its passenger business during 2005 with an increased number of services, carrying 9% more passengers on higher capacity rolling stock, the fastest growing passenger business in the EU.
- The quality of service to passengers continued to improve through better operating performance, the introduction of new rolling stock and customer service initiatives such as online ticketing and improved station facilities.
- The safety and security of the railway remains a top priority for the company and continued safety investment, staff vigilance and enhanced formal control systems have helped to show improvements in safety statistics.
- Services for mobility impaired customers were improved through the upgrade of station facilities along the DART line and the introduction of modern rolling stock.
- The development plans of the railway have been endorsed by Government and are supported by the announcement of Transport 21 which includes a step change in the development of the railway. The Interconnector tunnel linking the Northern line, via the Docklands and the Kildare line via Heuston Station, with the city centre will increase the travelling capacity of the Greater Dublin commuter network by a factor of four.
- The workforce of Iarnród Éireann has contributed with enthusiasm to the expansion of services and Iarnród Éireann has enjoyed an unprecedented period of continuous industrial peace ensuring the avoidance of service interruption and revenue loss.

Operations Review (continued)

Financial result

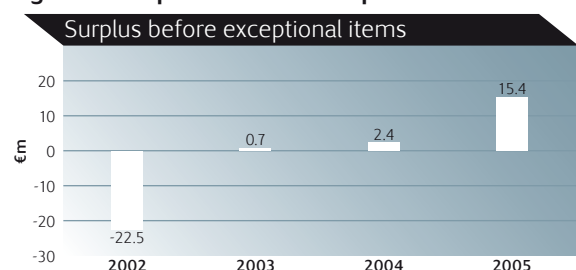
The surplus in 2005, before exceptional items amounted to €15.4 million compared to a surplus of €2.4 million in 2004, an improvement of €13 million. Passenger revenue growth and strong control of expenditure made significant contributions to this improved financial performance.

Included in the operating results are revenue losses estimated at €3.4 million arising from the closure of DART services on many weekends during the year to facilitate the earliest completion of the DART Upgrade project.

An overall surplus of €7.5 million, after exceptional items of €7.9 million, was earned in 2005, compared to a net deficit of €16.7 million in 2004, an improvement of €24.2 million.

The 2005 result exceeds the target set out in the 2003-2007 Financial Plan which was a small profit after exceptional items.

Figure 1 Surplus before exceptional items



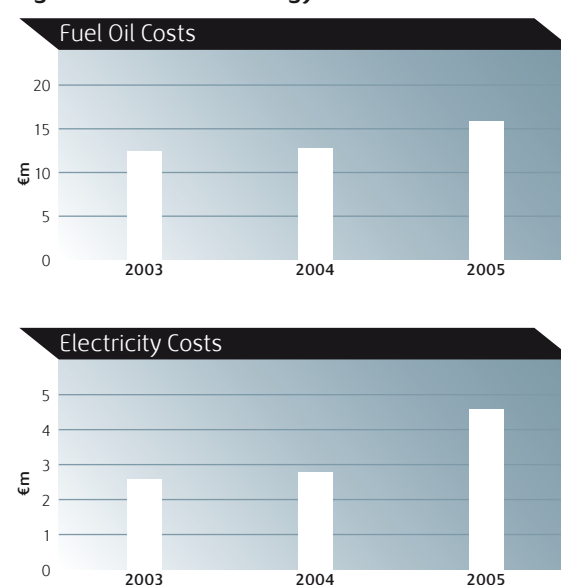
Fuel and energy costs

Rising fuel and energy costs seriously impacted on Iarnród Éireann's cost base during 2005 and will continue to do so in 2006 as the effects of the worldwide increase in both oil and gas prices continues to impact on the market. The CIÉ group mitigated its exposure to adverse movement in fuel and currency markets through its hedging policy. This policy of managing oil price risk on a selective hedging basis within a rolling 2 year timeframe will continue.

A project team was established in 2005 to assess the benefits of using alternatives to fossil fuels and to consider ways of minimising harmful emissions to the atmosphere.

Fuel and electricity costs for Iarnród Éireann, inclusive of VAT and excise duty, amounted to €20.5 million for 2005 compared to €15.7 million for 2004, an increase of 31%. Further increases are anticipated in 2006.

Figure 2 Fuel and Energy costs



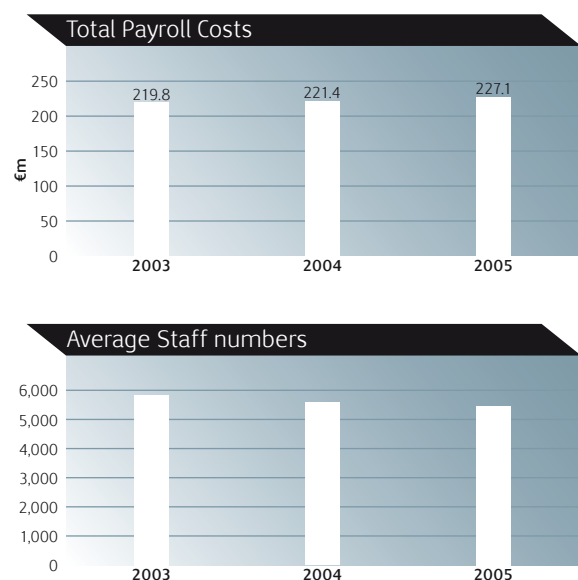
Operations Review (continued)

Payroll costs

Total Payroll costs (including pension costs) rose by 3% in 2005 and are expected to continue to rise during 2006.

Cost increases are primarily due to wage cost inflation, as staff numbers have been monitored closely and reduced in actual terms by 118 to a core number of 5,060 at the end of 2005.

Figure 3 Total payroll costs and average staff numbers



Fares increase

The Government approved a 3.8% increase in fares and this came into effect on the 5th January, 2006.

The estimated annual revenue yield from this increase is €5.2 million.

SERVICE IMPROVEMENTS

Passenger volumes

The number of passenger journeys (unadjusted for DART weekend closures) was 37.7 million approximately in 2005, a 9.1% increase on 2004. Passenger volumes in Iarnród Éireann have now grown at the highest percentage rate in Europe in the past decade.

Figure 4 European Passenger Volume Growth

	%	
Ireland	41.8	Highest
UK	38.1	
Spain	37.5	
France	20.8	Average
Germany	19.2	
Switzerland	-2.3	Lowest

Revenues from the passenger business were €151 million, a 7% increase on 2004. The increases have been predominantly in the commuter areas where capacity has been improved through longer DART trains and an enlarged fleet of railcars for the ever expanding outer commuter services.

Service increases

Service improvements were introduced on 14th December, 2004 and 11th December, 2005 to coincide with the 2005 and 2006 timetables.

A summary of the enhancements by route is as follows:

Commuter

- Maynooth commuters are benefiting from three additional services in the morning peak and two additional services in the evening peak, with a total additional daily peak capacity of approximately 3,300. (a 40% capacity increase).
- Northern (Drogheda) commuters have an additional morning peak service from Drogheda and additional stations served by the 17.10 evening service from Connolly to Balbriggan.

Operations Review (continued)

- A significant increase on the Ennis-Limerick frequency.
- Cork commuters have seen the introduction of two additional services daily each way Cork-Cobh and four additional services daily each way Cork-Mallow.
- A commuter service from Kilkenny was offered for the first time from 22nd March, 2006.

Intercity

- Sligo-Dublin service frequency increased from 3 to 5 services daily Monday to Saturday.
- Cork-Dublin has been given an even interval service, initially – every 2 hours (on the hour from Dublin at 0700, 0900, etc to 2100), in preparation for hourly interval service later in 2006.
- An early morning Waterford-Dublin service is operating daily Monday to Saturday from 22nd March, 2006.
- Galway-Dublin has additional Sunday services each way to meet capacity requirements.
- Limerick-Dublin has additional Sunday services to meet capacity requirements.
- Athlone-Dublin has an additional early morning service for increased long distance commuters.

DART

- Some additional services in the peak period have been introduced to/from Malahide. This is in response to the rise in demand from the Malahide and Portmarnock areas.

Performance against Key Performance Indicators during 2005

Iarnród Éireann continued the process of operational improvements during 2005.

The cancellation of services has been very low, with an average of over 99% of scheduled services running on all routes.

Performance targets for all passenger services have been agreed and set out in a Memorandum of Understanding with the Department of Transport. Progress against these targets is reviewed with the Department on a quarterly basis.

The target for punctuality to within 10 minutes of schedule has been achieved on all routes except the cross border Belfast service. However, approximately 60% of the delays on the Dublin-Belfast services occurred outside of the Iarnród Éireann network.

BUSINESS DEVELOPMENTS

Customer service

Iarnród Éireann is continuing to invest in new customer service facilities. Greater resources are being dedicated to customer service training for staff, and the company is also using technology to make travelling by rail simpler than ever.

The new improved website at www.irishrail.ie ensured that the facilities and information that the vast majority of users want – train times, online booking, fares and latest news – are the core focus of the website.

The online booking system is constantly being expanded and seats on standard class, first class and special services can now be purchased on the website. Fast, queue-busting automatic ticket vending machines are installed in over 80 stations across the network, and have been a great success. An analysis of revenue for reservations on trains for the period May – December 2005 shows that Web based sales are the most popular.

Operations Review (continued)

Figure 5 Revenues from Reservations

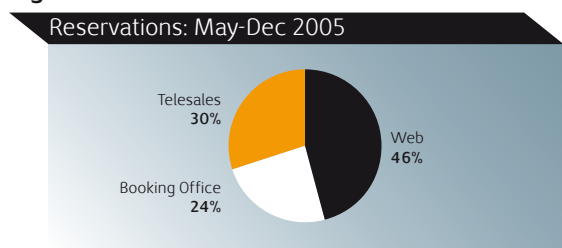
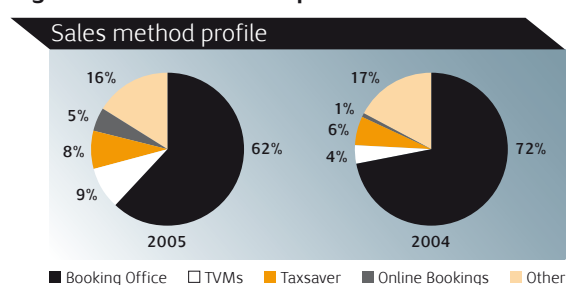


Figure 6 Sales method profile



Student travel card

Sales of Student Travelcards in the important September to December period in 2005 were extremely buoyant with over 22,500 cards sold. This followed a successful marketing campaign aimed at first year students.

The marketing campaign targeting 2nd, 3rd and 4th year students is currently underway. The main objective of the campaign is to ensure that the maximum number of card-holders are persuaded to renew their 2005 cards. Initial indications are that the campaign is meeting this objective with sales running approximately 10% ahead of sales for the same period in 2005.

TaxSaver commuter tickets

The on-line TaxSaver annual and monthly season ticket business continues to grow with sales of €5 million now processed through our on-line booking service. This business is aimed at corporate customers whose staff can avail of income tax relief on commuter season tickets.

Revenue profile

The shift in customer buying patterns is demonstrated by the increase in sales through automatic ticket vending machines (TVMs) at stations and online bookings at www.irishrail.ie which rose from 28% of sales in 2004 to 38% of sales in 2005.

Freight

The Freight business had another difficult year in 2005 with losses of €7.6 million, following losses of €9.0 million in 2004. This was in part due to the later than planned, though successful, withdrawal from the loss making Unit Load container business.

Iarnród Éireann Freight faces difficult years ahead in a number of areas. The recent announcement by Diageo of their withdrawal from the keg business will result in a significant revenue loss. Further freight revenue loss will result from the cessation of the sugar beet business following the closure of Ireland's last sugar beet factory in Mallow. There will be a requirement for significant cost reduction measures to compensate for this loss of business.

The rail freight business is now confined to the bulk movement of cement, timber, shale and minerals from Tara Mines, which are suited to carriage by rail.

Rosslare Europort

Rosslare Europort had a profitable year during 2005, despite some disruption due to the Irish Ferries dispute, returning a profit of €3.2 million. Revenue was buoyant at €10.6 million, up 3% on 2004. The business was boosted by new services introduced by Celtic Link whose customers are mainly roll-on roll-off freight hauliers.

Operations Review (continued)

DEVELOPMENT PROGRAMME

Capital expenditure

The 2005 capital expenditure programme, including Land and Buildings transferred to Córas Iompair Éireann, amounted to €318 million of which Exchequer grants funded expenditure of €267 million. A further €35 million in capital grants is due from the EU and own resource funded capital expenditure in 2005 amounted to €16 million.

Rolling stock

The value of current rolling stock projects exceeds €800 million. This represents the largest investment in public transport vehicles in the history of the State and will bring a total turnaround in the quality and age profile of Iarnród Éireann rolling stock over the next few years.

Commuter railcars

There are 154 diesel railcars currently in service on the Commuter routes and they also currently augment services on the Rosslare/Dublin, and Sligo/Dublin routes. A further 36 railcars have been introduced in recent months

Intercity railcars

150 Intercity railcars are under construction by Mitsui/Rotem in Korea. The trains will operate on the Dublin-Westport/Ballina; Dublin - Galway; Dublin - Limerick/Ennis; Dublin-Sligo; Dublin-Rosslare; Dublin- Cork/Tralee and Dublin-Waterford routes. They will enter service during 2007 and 2008, and when all are in service will facilitate increased service frequencies, quality and comfort across the regional Intercity network.

Dublin – Cork Intercity carriages

67 Intercity carriages have been ordered for the Cork-Dublin route from CAF of Spain, of which 51 have now been delivered for commissioning. They will begin entering service shortly, and will ultimately deliver an hourly service each way on the route in 2007. They will be the highest quality trains yet to operate on our network, featuring:

- Push-pull operation to reduce turnaround time and allow more efficient operation, and improved punctuality.
- Streamlined new design, with a new Intercity livery.
- Highest standards of comfort and customer facilities ever in Ireland.
- Compliance with international standards for mobility-impaired and sensory-impaired customers.
- Additional features in 1st class, including adjustable seating, in-seat radio and music, reading light and table lamps.

A programme for the mid-life refurbishment of the 201 locomotive fleet is in progress and the refurbished units are producing major benefits in the performance of the fleet.

DART EMUs

The mid-life refurbishment programme to upgrade the 76 original 1984 DART units is underway in Europe and the first batch of finished units are expected back into service in late 2006.

Infrastructure projects

The major works completed during 2005 were the DART upgrade and regional resignalling projects.

Platforms have been extended across all 30 DART stations to 8-carriage length, from a previous maximum of 6; all overhead wires have been renewed; enhanced power supply has been provided for; and stations have been transformed to ensure the best possible standards of accessibility for mobility and sensory impaired customers. The final element of the project, to commission new sidings at Fairview and open two new station buildings at Howth Junction and Bayside is close to completion. Two further stations have had accessibility works held up by planning issues and work on these will have to be rescheduled when planning approval is received.

Operations Review (continued)

The resignalling project, to replace semaphore signalling on the single track lines to Waterford, Tralee, Galway and Sligo, was completed and commissioned during 2005. A dedicated signalling projects team completed the project on time and within budget. The team have since commenced resignalling projects on the Mayo and Rosslare lines.

Work is well underway on the renovation of the Heuston trainhall roof and the station is already benefiting from a new and brighter look to complement the previously upgraded station passenger facilities, as well as being an essential safety investment.

The Kildare Route 4-tracking project has progressed to the Railway Order application stage and the Public Enquiry for this has already taken place.

Other projects at the design phase include the new station at Docklands, which will serve the expanded commuter services on the Maynooth line and the Laois Traincare depot in which the Intercity railcar fleet will be maintained. Maintenance facilities at Cork are also being upgraded to valet the new Intercity carriages.

Tender documents are being prepared for work in the Cork commuter area, including the reopening of the Middleton line. Preparation work has commenced on the Western Rail link project and the upgrading of Galway commuter facilities.

In addition to these major infrastructure projects, a programme of continuous improvements is underway including platform lengthening, accessibility facilities, station upgrades, demanning of level crossings and station car parking.

An exit validation project, to further protect revenue at seven major stations in Dublin, has advanced to implementation stage and will be commissioned during 2006.

Railway Safety and Renewals programme 2004-2008.

2005 was the second year of the Railway Safety and Renewals programme 2004-2008. The work carried out in 2005 was a continuation of works from the first year of the programme and included track renewals, bridge and fencing renewals, signalling equipment refurbishments and works at level crossings.

With the mainline network now upgraded to continuous welded rail on concrete sleepers, the track renewal element of the programme concentrated on second-hand relaying of the lightly used lines. Significant points and crossings works were carried out in 2005 on the Mallow-Tralee and Dublin-Sligo routes in association with the resignalling projects for these lines.

The fencing renewal programme continued as well as safety works to vulnerable interfaces between the railway and roadways or bridges including the erection of warning signs at height critical bridges. Coastal defence works at locations where the railway is vulnerable to sea ingress were also carried out on the eastern coast at Ballygannon and the Bray Head tunnel repairs were completed.

A strong emphasis on safety management systems was also a feature of the work carried out in 2005 with over 8,000 training days carried out in Infrastructure maintenance alone. Safety initiatives such as the provision of noise and vibration monitoring equipment also featured in line with the new Health, Safety and Welfare at work legislation introduced during the year.

Transport 21 Plan

Iarnród Éireann has warmly welcomed the Minister for Transport's announcement of Transport 21, the 10-year National Infrastructure Investment Plan, and the inclusion of key rail projects which will allow it to deliver a world class integrated rail system to customers in the Greater Dublin area and nationally.

Operations Review (continued)

Major advances have been made in recent years, with the upgrading of the Iarnród Éireann passenger network, Europe's fastest growing over the last decade. With the 10-year plan, the company feels it is now equipped to complete that transformation.

Interconnector

Undoubtedly the most important public transport infrastructure initiative in the Plan is the endorsement of the Dublin Integrated Rail Plan, including the Docklands to Heuston Interconnector.

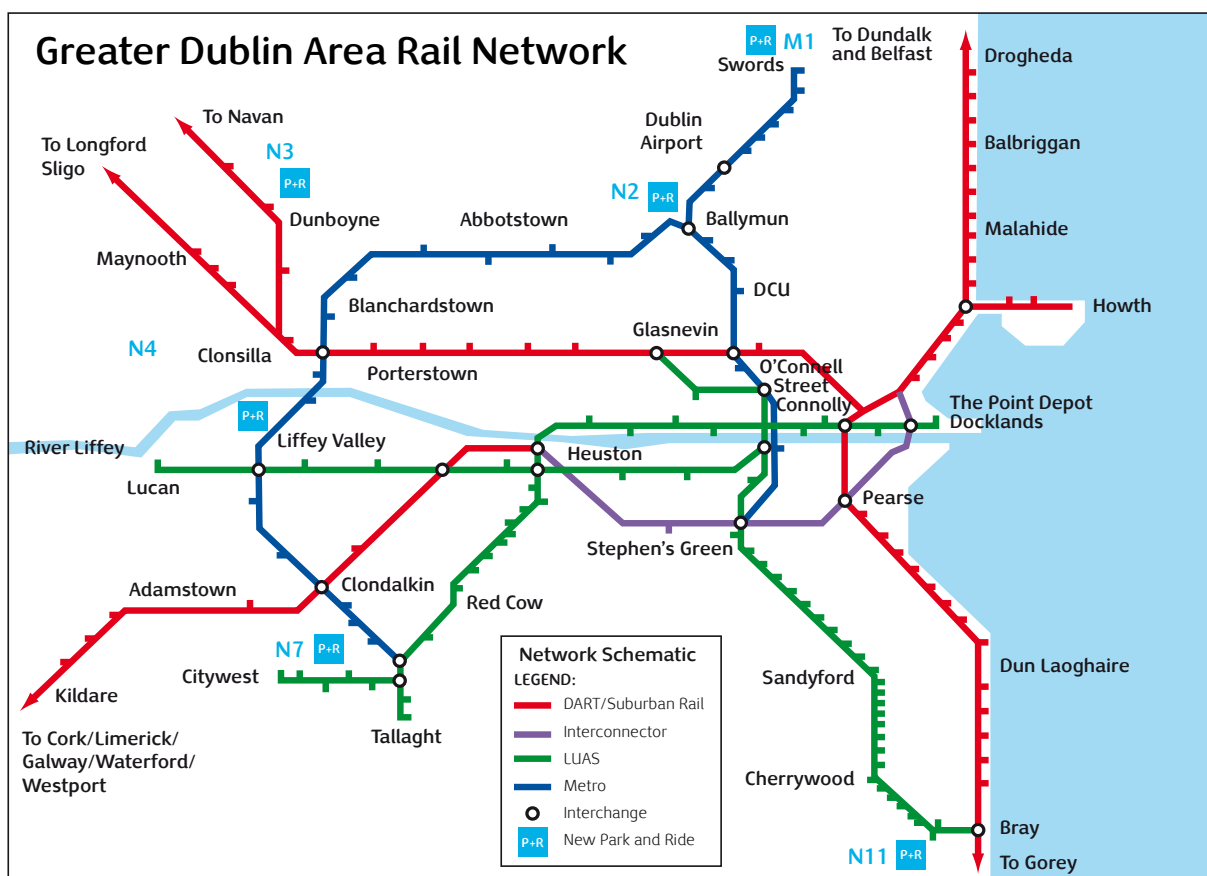
These proposals will transform the frequency and capacity of all rail lines leading into Dublin, quadrupling the number of passenger journeys on DART and Commuter lines from 25 million in 2004 to a projected 100 million on completion of the Interconnector.

The Interconnector will be the single most important piece of new infrastructure in the State in ensuring a modal shift from private to public transport, and in freeing future generations from the gridlock which cripples the Greater Dublin area today.

The Docklands to Heuston Interconnector will deliver:

- A second high capacity DART line through the heart of the city centre, via a 5.2 kilometre underground line.
- Dramatically increased frequency and capacity for services on the Northern, Commuter and Kildare lines – the three fastest growing population corridors in the country.
- A fully integrated rail network for the Greater Dublin area, linking all modes – DART, Commuter, Intercity, LUAS and Metro – and ensuring that suburb to suburb as well as suburb to city centre journeys can be made by a frequent, high capacity public transport network.

Figure 7 Greater Dublin Area Rail Network



Operations Review (continued)

- DART services to and from Balbriggan, Maynooth and Hazelhatch, all of which lines will be electrified.
- A quadrupling of the number of passenger journeys by DART and Commuter rail annually – an extra 75 million journeys will be made by rail each year.
- A critical piece of urban, regional and national infrastructure.

Full integration of all modes and high frequency, high capacity services on all routes are the key deliverables from this essential project.

It will ensure existing communities served by rail and new and growing communities which are to be linked to the network will have a high quality rail transport service available.

Greater Dublin

One of the key challenges Iarnród Éireann faces is in the ever-expanding Greater Dublin commuter area. The three fastest growing population corridors in the entire country are along the three busiest commuter routes into Dublin: the Northern line from Dundalk and Drogheda to Dublin's Connolly and Pearse Stations; the Maynooth line from Maynooth in North Kildare to Connolly and Pearse; and the Kildare line which operates from Dublin's Heuston Station to Kildare town and longer distance commuter destinations such as Portlaoise and Carlow. To date, Iarnród Éireann have maximised the capacity of the existing network to meet the increased demand.

DART daily passenger numbers grew from 35,000 in its early days in 1984 to over 90,000 today and the fleet size has been almost doubled from the original 80 carriages to 154 carriages.

The dedicated railcar fleet has been increased from a mere 17 units in 1998, to 180 units today, delivering high-capacity reliable service. It is a sign of the huge demand for quality rail services which exists, that each time additional capacity is introduced on any route, it is filled literally in weeks.

Dublin Integrated Rail Plan

The key elements of the Dublin Integrated Rail Plan are as follows.

- City centre resignalling: this is a key project to allow more trains operate through the Connolly-Pearse Station 'bottleneck'.
- New city centre terminal: in Dublin's booming Docklands area, to facilitate increased frequency on the Maynooth line.
- Kildare Route Project: key sections of the Kildare line are to be four-tracked, to provide two dedicated lines for commuter services and two dedicated lines for Intercity and regional services, enabling increased frequency of trains on all routes. This will particularly aid areas such as Clondalkin/Fonthill Road, the new Adamstown development, and Hazelhatch.
- The rebuilding and reopening of a spur line off the Maynooth line to Navan. This will take place in two phases – firstly building from Clonsilla to Dunboyne and a major motorway-linked Park and Ride station in Co Meath. In the shorter term, this will allow commuters from around the county to avail of rail services before the second phase completion of the line to Navan.
- New stations to serve major new housing and commercial development in the Greater Dublin area, including Adamstown, Kishogue, ParkWest, Fonthill Road, Grange Road, Pelletstown, Hansfield, Dunboyne, Pace M3 Park 'n' Ride and Phoenix Park.

In tandem with the infrastructure development, the fleet will be expanded to provide the capacity needed to cater for the additional demand.

All of these projects are included in Transport 21.

Operations Review (continued)

Commuting in other cities

Outside of Dublin, other urban areas are also looking to rail to provide solutions to congestion and the transport needs of their communities and Transport 21 supports these developments as well.

Transport 21 confirmed that the Cork Commuter rail proposals are to proceed. The plans include:

- Increased frequency on Cobh-Cork with further through operations to Mallow.
- The line to Midleton will be re-opened with a fast, frequent service to Cork.
- New stations at Midleton, Carrigtwohill, Dunkettle, Kilbarry and Blarney.
- New stations to include significant park and ride facilities.

The investment is being developed in tandem with the Cork Area Strategic Plan (CASP) framework for land use, transportation, social and environmental policies.

Galway commuting has also been provided for under the plan in tandem with the development of the Western Rail Corridor.

Intercity

Transport 21 supports Iarnród Éireann's investment in Intercity fleet, which will be transformed between now and 2008 with over 200 carriages currently on order. This represents an investment of over €400 million.

Currently, Iarnród Éireann has the oldest Intercity fleet in Europe, a symptom of the underinvestment in the past. Within three short years, Ireland's Intercity customers will be travelling on the newest fleet in Europe. All Intercity trains over 30 years old will be removed from the fleet, and modern trains will operate all Intercity services.

Figure 8 Planned Service frequencies

Service frequencies when the fleet is renewed are targeted to be:

ROUTE	FREQUENCY
Dublin – Cork	Hourly all day
Dublin – Limerick	Hourly peak, every two hours off-peak – mix of direct and shuttle services to/from Cork service
Dublin – Galway	Hourly peak, every two hours off-peak
Dublin – Waterford	Every two hours all day
Dublin – Sligo	Every two hours all day
Dublin – Westport	5 services per day – mix of direct trains and shuttle services Athlone-Westport, connecting to Galway service
Dublin – Tralee	Mix of through services and shuttle service Mallow-Tralee connecting to/from Cork service giving an overall 2 hourly service
Dublin-Rosslare	Existing service + extra commuter services (Gorey/Arklow)
Branch lines	Additional services

Western Rail Corridor

A critical element of ensuring the success of the Western Rail Corridor will be for local authorities to drive appropriate residential and commercial development along the route to create the critical mass of demand needed for rail networks to prosper.

ACCESSIBILITY

During the year, further significant progress was made on making our services accessible to all customers. With the DART Upgrade investment programme largely completed, significant improvements in accessibility for mobility and sensory impaired customers were delivered at many stations.

Operations Review (continued)

New Intercity trains with greater accessibility, entering service on Cork-Dublin during 2006, were delivered, including dedicated wheelchair spaces in each carriage, and mobility-impaired accessible toilet facilities. Tender notices were issued for contracts to begin the upgrading of accessibility features at all Cork route stations, work which will be progressed further during 2006.

Liaison continued with our Users Group, representative of mobility and sensory impaired customers, to monitor and advise on accessibility improvements.

SAFETY

Safety performance

Safety is a top priority for Iarnród Éireann and a distinct organisation structure is in place to define, and monitor adherence to, safety procedures within the company. As with train performance, a series of Key Performance Indicators has been defined and agreed with the Railway Safety Commission to monitor safety performance.

An analysis of safety performance indicators for 2005 indicates a broadly improving situation over the preceding year.

Level crossing incidents in 2005 show a reduction of some 40%, but this figure must be considered in the light of longer term trends which indicate that road user behaviour will require ongoing attention.

Incidents of Signals Passed at Danger (SPADs) are now a major focus of management attention.

The overall statistics show a 12% increase in the 2005 number of SPADs when compared with 2004, although the 2005 figure is lower than that observed in 2003. The introduction of modernised signalling systems on radial routes has improved our ability to detect SPADs, and this enhanced monitoring capability may account for some of the increase. However, each incident is investigated thoroughly and actions taken as appropriate.

Legislation

The Railway Safety Act 2005 has been enacted giving the Railway Safety Commission (RSC) independent status. Iarnród Éireann will now be required to produce a Safety Case for consideration by the RSC. The Act also requires formal RSC approval before commencing either the construction, or placing into service, phases of infrastructural new works and before commencing trial running, or placing into service, new, or significantly altered, rolling stock.

PEOPLE

Staff numbers

The essential process of pursuing increased efficiency and consequent productivity in the deployment of our human resources, as well as responding to changing market conditions which give rise to the need to consolidate or rationalise activities, continued during 2005. The effect of change and rationalisation generated in this process was a further overall reduction in manning levels measured as year end numbers to 5,060 core numbers compared to 5,178 at year end 2004 i.e. a reduction of 118. The main contributing factor was the orderly withdrawal from Iarnród Éireann's unprofitable Unit load (Container Carriage) business at the end of July.

Industrial peace

Iarnród Éireann services during 2005 were again delivered without disruption from industrial action. In essence Iarnród Éireann has managed an unprecedented period of continuous industrial peace for more than four years, ensuring the avoidance of service interruption or revenue loss. Indeed, in the previous five years, i.e. 1995 to 2000, industrial peace was only significantly interrupted due to the activities of a breakaway locomotive driver's group which inflicted a 10 week unofficial action during the summer of 2000, which didn't totally interrupt service, outside of this action, the impact of industrial action was managed to a limited level of effect.

Operations Review (continued)

Partnership

A joint trades union/management training initiative in the Infrastructure division continued and extended during 2005. Further developments are proposed in regard to structuring partnership arrangements during 2006. This includes building on the success of the Top Participation Group and the Top Safety Consultative Group.

Equality

Iarnród Éireann's fulltime Equality Officer and team extended a number of work/life balance initiatives including term time leave, home on-line working, as well as developing codes and policies in other areas. The company's Bullying and Harassment policy was reviewed and republished, taking account of changes in legislation.

In addition, equality proofing of company practice continued.

An award in respect of recruitment practice was achieved in acknowledgement of Iarnród Éireann's recognition of ability over disability.

PRINCIPLE RISKS

Risk management

An Enterprise Wide Risk Management (EWRM) system has been put in place. Each employee is a stakeholder in the process.

Safety risk is afforded a particularly high priority within the railway and to this extent, a cross-functional executive safety review group meets monthly to monitor the safety risk and deal with any safety issues, The Safety Advisory Group, which is composed of Iarnród Éireann directors and senior management, reviews the safety risk within the company.

A significant number of the major risks identified in the Risk Register are concerned with operational matters such as major accidents and a dedicated safety department is in place to work alongside line management to monitor safety controls.

Security

Iarnród Éireann maintains an Emergency Response Procedure, which would be applicable in the event of any major safety or security incident. The procedure is tested from time to time by simulated exercises, which include the involvement of the emergency services.

Directors and Other Information

Directors at 5th April, 2006

Chairman	Dr. J. J. Lynch
Directors	Mr. R. Byrne, Mr. P. Cullen, Mr. G. Duggan, Mr. P. Gaffney, Ms. M. Johnston, Mr. E. Murphy
Chief Executive	Mr. A. R. Fearn
Secretary	Ms. G. Finucane
Registered Office	Connolly Station, Dublin 1
Telephone	+353 1 836 3333
Facsimile	+353 1 836 4760
Website	www.irishrail.ie
Registered Number	119571
Auditors	PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Wilton Place, Dublin 2

Report of the Directors

The directors present their annual report in accordance with their obligations under the Companies Acts and the Transport (Re-organisation of Córas Iompair Éireann) Act, 1986. The accounts of the company and the related notes which form part of the accounts, and are included in this report, have been prepared in accordance with accounting standards generally accepted in Ireland.

Principal Activities and Financial Review

The principal activities of the company are the provision of Intercity and Commuter Rail passenger services, freight services and the management of Rosslare Europort.

Córas Iompair Éireann, a statutory body wholly owned by the Government of Ireland and reporting to the Minister for Transport, holds 100% of the issued share capital of the company.

Iarnród Éireann recorded a surplus of €7.5 million in 2005. Total revenue for the company amounted to €222.2 million in 2005, an increase of €6.7 million or 3.2% over 2004. Passenger revenue at €151 million shows an increase of 7% over 2004 and the number of passenger journeys increased by 9.1% from 34.6 million journeys in 2004 to 37.7 million journeys in 2005. These increases have been predominantly in the commuter areas where capacity has been enhanced through the introduction of additional Dart carriages and railcars.

The Public Service Obligation payment amounted to €180 million in 2005 compared to €171 million in 2004.

The Freight business had another difficult year in 2005 despite operating losses being reduced. Increased challenges are anticipated in 2006 as the business reorganises in the face of significant reductions in the beet and keg businesses.

The company continues to focus strongly on improving the quality and efficiency of its services for all customers. In monitoring the company's performance a range of key operating and financial performance indicators are regularly reviewed by both the directors and the Department of Transport. Payment in full of the Public Service Obligation is contingent on meeting targets agreed annually between the company and the Department of Transport. The directors are pleased to report that based on a successful achievement of those targets in 2005 the company received full payment of the Public Service Obligation. A detailed review of the performance is included in the Operations Review on pages 5 to 7.

Iarnród Éireann is committed to managing risk in a systematic and disciplined manner. Through an enterprise wide risk management process, the key risks facing the company are identified and action plans to mitigate the risks are developed. The safety of the railway network remains a top priority for the company and this is reflected in the risk register. Among the most serious risks are; major operational incidents, acts of terrorism, loss of operational communications and persistent failure to meet customer's and other stakeholder's expectations.

The company continues to invest in rolling stock and infrastructure projects and during 2005 the capital investment projects in progress included:

- DART Upgrade
- Safety and Renewals Programme
- Purchase of 150 regional diesel rail cars
- Resignalling of regional lines
- Improved accessibility for the mobility and sensory impaired

Report of the Directors (continued)

A detailed review of the company's activity for the year is contained in the Operations Review on pages 3 to 5.

The financial statements for the year ended 31st December, 2005 are set out in detail on pages 22 to 47.

Internal control

The board of Iarnród Éireann has appointed an Audit Review Group to review the annual accounts, internal control and compliance matters, the effectiveness of internal and external audit and risk management. The board has also appointed advisory groups to monitor project management of large infrastructure and rolling stock projects. A Safety Advisory Group and an Operations Advisory Group have also been established to assist the board in monitoring key business areas. More detail on the company's internal control system is set out in the Córás Iompair Éireann Group annual report.

Code of Practice for the Governance of State Bodies

Details of the policies and procedures implemented by the company following publication of the Code of Practice for the Governance of State Bodies are set out in the Córás Iompair Éireann Group annual report.

Going concern

The accounts have been prepared on the going concern basis and the directors report that they have satisfied themselves that the company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the directors have reviewed the budget for 2006, the medium term plans and the proposal for the Board of Córás Iompair Éireann to make sufficient financial resources available to fund the borrowing requirements of Iarnród Éireann for 2006 and 2007.

Books of account

The directors advise that they have discharged their responsibility to keep proper books of account through the use of appropriate systems and procedures and the employment of suitably qualified personnel. The books of account are kept at the company's head office at Connolly Station, Amiens Street, Dublin 1.

Railway Safety Act 2005

In December 2005 the Railway Safety Act 2005 was enacted which accorded independent status on the Railway Safety Commission from 2006. Various specific clauses of the Act will be implemented during 2006, giving effect to the requirements for Railway Safety Commission approval of an Iarnród Éireann Safety Case, the construction and placing into service of infrastructural new works and for trial running and placing into service of new or significantly altered rolling stock. The Act also formalises procedures for drugs and alcohol testing as well as identifying third party safety responsibilities.

EC (Late Payment) Regulation 2002

The directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the EC (Late Payment) Regulation 2002. Procedures have been implemented to identify the dates upon which all invoices fall due for payment and to ensure that payments are made by such dates. Such procedures provide reasonable assurance against material non-compliance with the regulations.

Report of the Directors (continued)

Directors

The directors of the company are appointed by the Chairman of Córas Iompair Éireann with the consent of the Minister for Transport. The names of the persons, who were directors at any time during the year ended 31st December, 2005 are as set out below. Except where indicated they served as directors for the whole year.

Dr. J. J. Lynch	Chairman (Re-appointed 28th March, 2005)
Mr. J. Meagher	(Retired 28th February, 2005)
Mr. R. Byrne	(Appointed 23rd September 2005)
Mr. P. Cullen	(Retired 30th November, 2005, re-appointed 1st January 2006)
Mr. G. Duggan	(Re-appointed 9th February 2005 Re-appointed 9th February 2006)
MR. P. Gaffney	(Appointed 1st January 2006)
Ms. M. Johnston	(Appointed 1st January 2006)
Ms. A. M. Mannix	(Retired 30th November 2005)
Mr. E. Murphy	(Appointed 23rd September 2005)
Mr. W. McCamley	(Retired 30th November 2005)
Dr. P. Prescott	(Re-appointed 1st May 2005 Retired 31st October 2005)

None of the directors held any interest or any shares or debentures of the company, its holding company or its fellow subsidiaries at any time during the year. There were no material contracts or arrangements entered into during the year in which a director was interested in relation to the Group's business. The Company Secretary holds one ordinary share as nominee of the Board of Córas Iompair Éireann.

Auditors

The auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, have expressed their willingness to continue in office in accordance with section 160 (2) of the Companies Act, 1963.

Chief Executive

Mr. A.R. Fearn succeeded the Chief Executive, Mr. J. Meagher as Acting Chief Executive in May 2005 when Mr. Meagher took up another position within the Córas Iompair Éireann group. Mr. A.R. Fearn was appointed Chief Executive in January 2006.

On behalf of the board

Dr. J. J. Lynch Chairman
Mr. R. Byrne Director

5th April, 2006.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable Irish law and generally accepted accounting practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

Irish company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that year.

In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the requirements of the Companies Acts, 1963 to 2005. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

Independent auditors' report to the members of Iarnród Éireann – Irish Rail

We have audited the financial statements on pages 22 to 47. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 22 to 23.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Irish law and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities on page 19.

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005. We state

whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

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

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors Report and the Operations Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Report of the Auditors (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2005.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 16 to 18 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 25 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 2005 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

5th April, 2006.

- (a) The maintenance and integrity of the C oras Iompair  ireann website is the responsibility of the Board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal Accounting Policies

The significant accounting policies and estimation techniques adopted by the company, are as follows:

(A) Basis Of Preparation

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2005. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements are prepared under the historical cost convention.

Dubel Limited, a wholly owned subsidiary, is treated as a branch of Iarnród Éireann-Irish Rail for accounting purposes.

The prior year comparatives have been revised to conform with the current year presentation.

(B) Tangible Assets and Depreciation

The bases of calculation of depreciation are as follows:

(i) Railway lines and works

Railway lines and works comprise a network of systems. Expenditure on the existing network, which maintains the operating capability in accordance with defined standards of service is treated as an addition to tangible fixed assets and included at cost after deducting grants.

The depreciation charge for existing railway lines and works is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's asset management plan.

Expenditure on the network, which increases its capacity or enhances its operating capability is treated as an addition to tangible fixed assets at cost and depreciated over its useful life.

(ii) Railway rolling stock

Locomotives (other than those fully depreciated or acquired at no cost) are depreciated, by equal annual instalments, on the basis of their historical cost spread over their expected useful lives.

Railcars, coaching stock and wagons are also depreciated, by equal annual instalments, on the basis of historical cost spread over their expected useful lives.

(iii) Road freight vehicles

These assets are depreciated on the basis of historical cost spread over their expected useful lives using the sum of the digits method.

(iv) Docks, harbours and wharves; plant and machinery; catering services equipment

The above class of assets are depreciated by equal annual instalments, based on the historical cost spread over their expected useful lives.

(v) Buildings

Buildings are depreciated, by equal annual instalments, on the basis of historical cost spread over a fifty-year life.

(C) Leased Assets

(i) Finance leases

Assets held under finance leases are accounted for in accordance with SSAP 21 (Accounting for Leases and Hire Purchase Contracts). The capital cost of such assets is included in tangible assets and depreciated over the shorter of the lease term or the estimated useful life of the asset. The capital element of the outstanding lease obligations is included within creditors. Finance charges are charged to the profit and loss account over the primary period of the lease.

(ii) Operating leases

Rental payments under operating leases are charged to the profit and loss account as they accrue.

Principal Accounting Policies (continued)

(D) Stocks

Stocks of materials and spare parts are valued at the lower of average cost and net realisable value.

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.

(E) European Union and State Grants

(i) Grants for existing railway lines and works

Grants received for existing railway lines and works are deducted from the cost of related assets.

This policy is not in accordance with the Companies (Amendment) Act 1986, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies (Amendment) Act 1986 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as these railway lines and works do not have determinable lives and therefore no basis exists on which to recognise grants and contributions as deferred income.

(ii) Grants for other capital expenditure

Grants for other capital expenditure are credited to deferred income as they become receivable. They are amortised to the profit and loss account on the same basis as the related assets are depreciated.

(iii) Revenue grants

Revenue grants are taken to the profit and loss account in the year in which they become receivable.

(iv) Safety investment grants

Safety investment grants are amortised to the profit and loss account by reference to the Safety Investment Programme.

(F) Foreign Currency

Transactions denominated in foreign currency are translated into euro at the rate ruling at the date of the transaction, or at contract rates where the amounts payable or receivable are covered by forward contracts.

Realised exchange gains or losses on transactions settled during the year are treated as part of the surplus or deficit for the year from ordinary activities.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date or at contract rates where applicable.

(G) Pensions

The expected cost of providing pensions to employees is charged to the profit and loss account as incurred over the period of employment of pensionable employees. The cost is calculated, with the benefit of advice from independent actuaries, at what is expected to be a stable percentage of pensionable pay. Variations from regular pension costs, identified by periodic actuarial valuations, are spread over the expected average remaining service lives of the members of the scheme.

The capital cost of supplementary pension benefits is provided for and charged to the profit and loss account in the year that the enhanced benefits are granted.

(H) Railway Infrastructure Costs

In accordance with EU Council Directive 91/440 Iarnród Éireann-Irish Rail is required to ensure that the accounts of the business of transport services and those for the business of management of railway infrastructure are kept separate. The infrastructure costs are determined in accordance with Annex 1.A. to EU Regulation No. 2598/70.

Profit and Loss Account

		Total	Exceptional Operating Items	Continuing Operations before Exceptional Items	Total	Exceptional Operating Items	Continuing Operations before Exceptional Items
	Note	2005 €000	2005 €000	2005 €000	2004 €000	2004 €000	2004 €000
			Note 5			Note 5	
Revenue		222,284	-	222,284	215,481	-	215,481
Costs							
Payroll and related costs	3	(234,978)	(7,887)	(227,091)	(238,797)	(17,447)	(221,350)
Materials and services	4	(149,661)	-	(149,661)	(141,627)	-	(141,627)
Depreciation less amortisation of capital grants	6	(19,257)	-	(19,257)	(27,813)	(1,727)	(26,086)
Total operating costs		(403,896)	(7,887)	(396,009)	(408,237)	(19,174)	(389,063)
Profit on disposal of tangible assets	7	109	-	109	132	-	132
Deficit before interest and State grants		(181,503)	(7,887)	(173,616)	(192,624)	(19,174)	(173,450)
Interest payable							
- operational	8	(2,752)	-	(2,752)	(3,886)	-	(3,886)
- railway infrastructure	8	(1,545)	-	(1,545)	(2,212)	-	(2,212)
Total interest		(4,297)	-	(4,297)	(6,098)	-	(6,098)
Deficit for the year before State grants		(185,800)	(7,887)	(177,913)	(198,722)	(19,174)	(179,548)
State grants-PSO	9	179,990	-	179,990	171,420	-	171,420
State grants-railway safety grant	9	13,337	-	13,337	10,557	-	10,557
Surplus/(deficit) for the year after State grants	2(A)	7,527	(7,887)	15,414	(16,745)	(19,174)	2,429
Accumulated deficit at beginning of the year		(102,584)			(85,839)		
Accumulated deficit at end of the year		(95,057)			(102,584)		

All figures relate to the continuing activities of the company.

There were no recognised gains or losses other than those included in the profit and loss account.

On behalf of the board

Dr. J. J. Lynch Chairman

Mr. R. Byrne Director

Balance Sheet

As at 31st December	Notes	2005 €000	2004 €000
Fixed assets			
Tangible fixed assets	10	1,032,954	917,304
Financial assets	11	20	20
		1,032,974	917,324
Current assets			
Stocks	12	41,076	32,676
Debtors	13	176,042	177,726
Cash at bank and in hand		220	151
		217,338	210,553
Creditors (amounts falling due within one year)	14	(354,354)	(438,643)
Net current liabilities		(137,016)	(228,090)
Total assets less current liabilities		895,958	689,234
Creditors (amounts falling due after more than one year)	15	(39,576)	(44,496)
Provisions for liabilities and charges	18	(62,851)	(60,810)
Deferred income	19	(758,698)	(556,622)
		34,833	27,306
Financed by:			
Capital and reserves			
Called up share capital	20	29,204	29,204
Asset replacement reserve	21	100,686	100,686
Profit and loss account		(95,057)	(102,584)
Shareholders' funds	22	34,833	27,306

On behalf of the board

Dr. J. J. Lynch Chairman

Mr. R. Byrne Director

Cash Flow Statement

Year ended 31st December	Notes	2005 €000	2004 €000
Net cash inflow from operating activities	23(A)	18,341	45,362
Servicing of finance			
Interest paid	8	(1,423)	(2,977)
Interest element of finance lease rentals	8	(2,874)	(3,121)
State grant - DART Interest	9	900	900
Net cash outflow from servicing of finance		(3,397)	(5,198)
Investing activities			
Purchase of tangible assets		(254,185)	(263,670)
Sale of tangible assets		109	132
Capital grants		316,851	133,739
Net cash inflow/(outflow) from investing activities		62,775	(129,799)
Net cash inflow/(outflow) before management of liquid resources and financing	23(B)	77,719	(89,635)
Management of liquid resources	23(B)	(62,650)	80,751
Financing			
Capital element of finance lease rentals		(4,615)	(4,302)
Net cash outflow from Financing	23(B)	(4,615)	(4,302)
Increase/(decrease) in cash in the year	23(B)	10,454	(13,186)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		10,454	(13,186)
Cash inflow/(outflow) from holding company balance, lease financing and NDP Investment projects funded by C.I.É.		67,265	(76,449)
Movement in net debt in the year		77,719	(89,635)
Net debt at 1st January		(224,651)	(135,016)
Net debt at 31st December		(146,932)	(224,651)

Notes to the Financial Statements

1. FINANCIAL OUTLOOK

As noted in the prior year accounts during 2003 the board of Iarnród Éireann approved a management plan to return the company to financial stability.

The core aspects of this plan included a reduction in staff numbers, rationalisation of rail freight depots and tight control of non-labour costs. Progress was made in 2005 and the directors consider that the company is on course to achieve these financial targets. They intend to continue to implement the key elements of this plan in 2006.

In the course of approving these accounts, the directors have received an undertaking from Córas Iompair Éireann that it will continue to make sufficient financial resources available to fund the borrowing requirements of the company for 2006 and 2007. Based on this undertaking, the directors consider it appropriate to continue to prepare these accounts on a going concern basis.

2005	2004
€000	€000

2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT

(A) Company result

Operating deficit before operating interest, State grants and exceptional items;

Rail operations;

Mainline rail (note 2B)	(55,904)	(54,715)
Suburban rail (note 2C)	(19,416)	(23,210)
Total Rail operations	(75,320)	(77,925)
Subvention and grants for Rail operations	78,910	79,176

Operating surplus before operating interest and exceptional items:

Rail Operations (incl. Catering services)	3,590	1,251
Infrastructure Maintenance (note 2D)	12,413	3,301
Road freight (note 2E)	359	1,195
Rosslare Europort (note 2F)	3,240	2,648
Total operating surplus for year before operating interest and exceptional items	19,602	8,395
Interest	(4,297)	(6,098)
Profit on disposal of tangible assets	109	132
Total operating surplus before exceptional items	15,414	2,429
Exceptional operating costs (note 5)	(7,887)	(19,174)
Surplus/(deficit) for the year	7,527	(16,745)

No taxation charge arises on the results for the year because certain revenues of the company are not brought into account for tax purposes.

Notes to the Financial Statements (continued)

	2005 €000	2004 €000
2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT <i>(continued)</i>		
(B) Mainline rail division		
Revenue	139,841	135,761
Expenditure		
Maintenance of rolling stock	(46,624)	(44,879)
Fuel	(16,200)	(13,426)
Operating and other expenses	(127,492)	(125,013)
Operating depreciation	(18,508)	(19,337)
Amortisation of capital grants	13,079	12,179
Total expenditure	(195,745)	(190,476)
Operating deficit before operating interest and State grants	(55,904)	(54,715)
(C) Suburban rail division		
Revenue	42,019	37,554
Expenditure		
Maintenance of rolling stock	(13,495)	(12,652)
Fuel (including electricity for traction)	(6,220)	(4,280)
Operating and other expenses	(38,637)	(36,693)
Operating depreciation	(16,775)	(17,689)
Amortisation of capital grants	13,692	10,550
Total expenditure	(61,435)	(60,764)
Operating deficit before operating interest and State grants	(19,416)	(23,210)
Included in the Maintenance of rolling stock figures in Mainline rail note 2(B) and Suburban rail note 2(C) is a		
Depreciation charge of	2,258	2,223
Amortisation of grants	1,268	1,195

Notes to the Financial Statements (continued)

	2005 €000	2004 €000
2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT <i>(continued)</i>		
(D) Railway infrastructure maintenance		
In compliance with EU Council Directive 91/440 the costs of the railway infrastructure division have been computed as follows:		
Maintenance of railway lines and works	(66,800)	(62,980)
Renewal of railway lines and works	(87,601)	(55,696)
Operating (signalling) and other expenses	(26,733)	(27,125)
Depreciation (<i>note 10 (d)</i>)	(17,328)	(17,745)
Amortisation of capital grants	8,857	8,350
Total expenditure	(189,605)	(155,196)
Operating deficit before operating interest payable and State grants	(189,605)	(155,196)
Infrastructure subvention	110,080	100,148
Exchequer safety funding	4,337	2,653
Renewals funding	87,601	55,696
	202,018	158,497
Surplus for the year before operating interest payable	12,413	3,301
Apportionment of costs (incl. operating interest payable)		
Mainline rail division	170,937	137,722
Suburban rail division	18,668	17,474
Total costs infrastructure maintenance	189,605	155,196
(E) Road freight division		
Revenue		
Goods services	29,809	31,846
Miscellaneous	36	50
Total revenue	29,845	31,896
Operating costs		
Maintenance of vehicles and equipment	(1,167)	(1,401)
Fuel	(413)	(418)
Road tax and licences	(56)	(75)
Operating and other expenses	(27,612)	(28,517)
Operating depreciation	(238)	(290)
Total expenditure	(29,486)	(30,701)
Net surplus for the year	359	1,195

Notes to the Financial Statements (continued)

	2005 €000	2004 €000
2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT <i>(continued)</i>		
(F) Rosslare Europort division		
Revenue		
Harbour services	10,579	10,270
Operating costs		
Maintenance, operating and other expenses	(6,425)	(6,515)
Operating depreciation	(1,446)	(1,867)
Amortisation of capital grants	532	760
Total expenditure	(7,339)	(7,622)
Operating surplus before interest payable	3,240	2,648
(G) State grants, EU and Exchequer Funding		
Allocated to:		
Rail operations	78,910	79,176
Infrastructure maintenance	202,018	158,497
	280,928	237,673
Sources:		
Exchequer PSO	179,990	171,420
Exchequer safety and other grants	13,337	10,557
Exchequer funded renewals	67,015	47,291
EU funded renewals	1,548	8,405
Deferred funding	19,038	-
	280,928	237,673

Notes to the Financial Statements (continued)

2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT *(continued)*

(H) Net surplus by activity before exceptional items

	Commercial €000	Social €000	Total €000
2005			
Revenue	40,424	181,860	222,284
Costs	(36,897)	(450,901)	(487,798)
State grants, EU and Exchequer funding	-	280,928	280,928
Surplus for the year after State grants	3,527	11,887	15,414
2004 Net result	3,486	(1,057)	2,429

Commercial activities included in the above are road freight division, catering services division and Rosslare Europort division.

2005	2004
€000	€000

3. PAYROLL AND RELATED COSTS

Staff costs

Wages and salaries	238,667	228,224
Social welfare costs	20,371	19,617
Other pension costs	17,336	17,463
	276,374	265,304
Own work capitalised, renewals and engineering work for group companies	(49,519)	(44,331)
Net staff costs	226,855	220,973

Directors' remuneration

- services as directors	26	30
- other emoluments	210	347
Total directors' remuneration and emoluments	236	377
Total payroll and related costs	227,091	221,350

Notes to the Financial Statements (continued)

3. PAYROLL AND RELATED COSTS (continued)

	Staff Numbers		Staff Numbers	
	2005 Average	2004 Average	as at 31 Dec 05	as at 31 Dec 04
The number of employees by activity, was				
■ Railway operations (incl. Catering services)	3,655	3,723	3,628	3,682
■ Infrastructure	1,268	1,318	1,250	1,286
■ Road freight	108	130	97	118
■ Rosslare Europort	89	95	85	92
Sub-total	5,120	5,266	5,060	5,178
■ Projects	343	324	316	369
Overall-total	5,463	5,590	5,376	5,547

2005
€000

2004
€000

4. MATERIALS AND SERVICES

The deficit for the year before interest and State grants is arrived after charging the following under the materials and services heading.

Operating and other costs	114,254	108,308
Fuel and electric traction	20,485	15,680
Third party and employer's liability claims	7,235	9,502
Rates	3,103	2,925
Operating lease rentals	4,422	4,981
Road tax and licences	64	133
Auditors remuneration	98	98
	149,661	141,627

5. EXCEPTIONAL OPERATING COSTS

Business restructuring	7,887	17,447
Accelerated depreciation	-	1,727
	7,887	19,174

As part of the 2003 Financial Plan the company introduced a voluntary severance and early retirement programme. The estimated cost in 2005, including severance payments and other costs associated with the programme is €7.9 million.

Notes to the Financial Statements (continued)

	2005 €000	2004 €000
6. DEPRECIATION		
Depreciation (<i>note 10</i>)	57,011	61,533
Amortisation of capital grants (<i>note 19</i>)	(37,754)	(33,720)
Total depreciation	19,257	27,813
7. PROFIT ON THE DISPOSAL OF TANGIBLE ASSETS		
Profit on disposal of Tangible assets	109	132
8. INTEREST PAYABLE		
On loan from holding company	1,423	2,977
On finance leases	2,874	3,121
	4,297	6,098
Interest apportioned:		
Operational costs	2,752	3,886
Railway infrastructure costs (<i>note 2 (D)</i>)	1,545	2,212
	4,297	6,098

Notes to the Financial Statements (continued)

9. STATE GRANTS

The grants payable to the company through the holding company, Córas Iompair Éireann, are in accordance with the relevant EU regulations governing State aid to transport undertakings.

Particulars of the State grants of €469.0 million received in 2005 are given in the following table, showing the relevant provision of EU regulations. A sum of €38.8 million in relation to grants received on land and buildings was passed back to the holding company.

	EU Regulation Number 1191/69 €000	1107/70 (Article 4) €000	Total €000
Revenue related			
Mainline rail			
Operation of passenger services	143,763	-	143,763
Residual deficit - State grants	-	63	63
	<u>143,763</u>	<u>63</u>	<u>143,826</u>
Suburban rail			
Operation of passenger services	12,709	-	12,709
Sub total	<u>156,472</u>	<u>63</u>	<u>156,535</u>
	EU Regulation Number 1192/69 €000	1107/70 (Article 3.1 [b]) €000	Total €000
Expenditure related			
Mainline rail			
Normalisation of accounts			
- Class III (pensions)	12,509	-	12,509
- Class IV (level crossings)	6,201	-	6,201
- Infrastructure grant (freight)	-	1,375	1,375
	<u>18,710</u>	<u>1,375</u>	<u>20,085</u>
Suburban services			
Normalisation of accounts			
- Class III (pensions)	1,987	-	1,987
- Class IV (level crossings)	483	-	483
	<u>2,470</u>	<u>-</u>	<u>2,470</u>
Sub total	<u>21,180</u>	<u>1,375</u>	<u>22,555</u>
Total			<u>179,090</u>
Add State grant for DART interest - EU Regulation 1191/69			<u>900</u>
Sub total State subvention			<u>179,990</u>
State grant for NDP-2005	279,552		
Deferred funds ex CIÉ	9,466		
			<u>289,018</u>
Total State grants received			<u><u>469,008</u></u>

Notes to the Financial Statements (continued)

9. STATE GRANTS (continued)

The total funding received was applied as follows:

Profit & loss account

Subvention		179,990
Railway Safety Revenue Grant	13,337	
Credit against the renewals of railway lines and works (note 10(a))	67,015	
Deferred income (note 19)	169,832	
Transferred to CIÉ for Land and Buildings	38,834	
State grant for NDP		289,018
Total		469,008

10. TANGIBLE FIXED ASSETS

	1st Jan 2005 €000	Reclassifications €000	Additions €000	Scrappings & Disposals €000	31st Dec 2005 €000
Cost					
Railway lines and works	901,506	-	75,997	-	977,503
Railway rolling stock	750,613	-	108,209	(937)	857,885
Road freight vehicles	6,828	-	8	-	6,836
Plant and machinery	449,117	8,170	72,794	(10)	530,071
Catering equipment	1,130	-	-	-	1,130
Docks, harbours and wharves	43,937	-	2,684	-	46,621
Land and buildings	708	-	570	-	1,278
Capital work in progress	8,170	(8,170)	-	-	-
Sub total	2,162,009	-	260,262	(947)	2,421,324
Funding received for railway lines and works	(644,608)	-	(87,601)	-	(732,209)
Total	1,517,401	-	172,661	(947)	1,689,115

Notes to the Financial Statements (continued)

10. TANGIBLE FIXED ASSETS *(continued)*

	1st Jan 2005 €000	Reclassifications €000	Charge for year €000	Scrappings & Disposals €000	31st Dec 2005 €000
Depreciation					
Railway lines and works	821,666	-	90,844	-	912,510
Railway rolling stock	245,614	-	29,981	(937)	274,658
Road freight vehicles	6,259	-	236	-	6,495
Plant and machinery	158,827	-	22,613	(10)	181,430
Catering equipment	1,064	-	22	-	1,086
Docks, harbours and wharves	11,275	-	913	-	12,188
Land and buildings	-	-	3	-	3
Sub total	1,244,705	-	144,612	(947)	1,388,370
Funding received for railway lines and works	(644,608)	-	(87,601)	-	(732,209)
Total	600,097	-	57,011	(947)	656,161

	2005 €000	2004 €000
Net book amounts		
Railway lines and works	64,993	79,840
Railway rolling stock	583,227	504,999
Road freight vehicles	341	569
Plant and machinery	348,641	290,290
Catering equipment	44	66
Docks, harbours and wharves	34,433	32,662
Land and buildings	1,275	708
Capital work in progress	-	8,170
Total	1,032,954	917,304

Notes to the Financial Statements (continued)

10. TANGIBLE FIXED ASSETS *(continued)*

(a) In compliance with FRS 15, Tangible Fixed Assets, the basis of accounting for renewals of railway lines and works is to credit the grant against the cost of renewals to the railway network.

	2005 €000	2004 €000
Renewals expenditure and related grants were as follows		
Renewals expenditure	87,601	78,670
State grants	67,015	47,291
EU grants	1,548	8,405
Deferred funding	19,038	-
	87,601	55,696

(b) The expected useful lives of the various types of assets for depreciation purposes are as follows:

	Lives (Years)
Railway lines and works	10-40
Railway rolling stock	4-20
Road freight vehicles	1-10
Plant and machinery	3-30
Docks, harbours and wharves	50
Catering equipment	5-10
Buildings	50

(c) The amounts included in the original cost of various tangible assets include €34,463,231 in capitalised interest charges relating to the Bray-Howth suburban railway electrification scheme which was completed in 1984.

	2005 €000	2004 €000
(d) Tangible assets include railway infrastructure assets as follows:		
Cost	641,004	606,970
Accumulated depreciation	(304,120)	(286,792)
Net book value	336,884	320,178
Depreciation for year <i>(note 2(D))</i>	(17,328)	(17,745)

Notes to the Financial Statements (continued)

10. TANGIBLE FIXED ASSETS <i>(continued)</i>	2005 €000	2004 €000
(e) Included in additions above are payments on account in respect of railway rolling stock which were not yet in service:		
Railway rolling stock	177,816	158,147
(f) Included in tangible assets are amounts as stated below in respect of railway rolling stock and plant and machinery which are held under finance leases, whereby the company has beneficial ownership i.e. substantially all the risks and rewards associated with the ownership of an asset, other than the legal title:		
Cost	88,573	88,270
Accumulated depreciation	(42,118)	(37,138)
Net book value	46,455	51,132
Depreciation for year	(4,980)	(4,958)
11. FINANCIAL ASSETS		
Trade investments - listed shares		
Cost or valuation at 1st January	63	63
Provision for impairment in value at 31st December	(43)	(43)
Net book amounts at 31st December	20	20
Market value at 31st December	49	49
12. STOCKS		
Rolling stock, spare parts and maintenance materials	18,976	17,350
Infrastructure stocks	14,736	11,319
Fuel, lubricants and other sundry stocks	7,364	4,007
	41,076	32,676
These amounts include parts and components necessarily held to meet long-term operational requirements.		
13. DEBTORS		
Trade debtors	17,583	9,246
Amounts owed by holding and fellow subsidiary companies	75,733	107,751
EU grants receivable	75,585	51,401
Other debtors and accrued income	7,141	9,328
	176,042	177,726

Notes to the Financial Statements (continued)

14. CREDITORS (amounts falling due within one year)	2005 €000	2004 €000
Bank overdraft	13,078	23,463
Trade creditors	62,167	61,173
Loan from holding company (note 16)	165,066	165,066
Finance lease obligations (note 17)	5,166	4,861
Income tax deducted under PAYE	4,286	4,354
Pay related social insurance	3,262	3,148
Value added tax and other taxes	9,735	1,177
Other creditors	4,480	2,466
NDP Investment projects funded by C.I.É.	-	94,667
Accruals	3,278	3,251
Restructuring provision (note 18)	18,910	24,296
Third party and employer's liability claims (note 18)	5,084	4,973
Deferred income (note 19)	59,842	45,748
	354,354	438,643
Creditors for taxation and social welfare included above	17,283	8,679

15. CREDITORS (amounts falling due after more than one year)

Finance lease obligations (note 17)	39,576	44,496
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16. LOAN FROM HOLDING COMPANY

This loan is repayable as follows:

Within one year (note 14)	165,066	165,066
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This loan represents the net assets less issued share capital assigned to the company on its establishment following the re-organisation of Córas Iompair Éireann in 1987. Each year the amount outstanding is aged by reference to the bank loans held and managed by Córas Iompair Éireann on behalf of the operating companies.

The presentation of the maturity analysis of loans and other debt above complies with the provisions of FRS 4 Capital Instruments. The standard requires that the maturity of debt should be determined by reference to the earliest date on which the lender can require repayment. Included in amounts repayable within one year are amounts of €83,700,000 (2004 - €76,580,000) relating to Irish Commercial Paper which are backed by committed medium term facilities which effectively extend the maturity of these instruments.

Notes to the Financial Statements (continued)

17. LEASE OBLIGATIONS

	2005 €000	2004 €000
(A) Finance leases		
Net obligations under finance leases fall due as follows:		
Within one year (<i>note 14</i>)	5,166	4,861
Between one and five years (<i>note 15</i>)	19,787	21,074
After five years (<i>note 15</i>)	19,789	23,422
	39,576	44,496
	44,742	49,357
(B) Operating leases		
Commitments under non-cancellable operating leases payable in the coming year expire as follows:		
Within one year	2,174	1,844
Between one and five years	3,094	2,583
	5,268	4,427

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring Provision €000	Third Party and Employer's Liability Claims €000	Total €000
Balance at 1st January, 2005	24,296	65,783	90,079
Utilised during the year	(13,273)	(5,083)	(18,356)
Transfer from profit and loss account			
- Exceptional item	7,887	-	7,887
- Other	-	7,235	7,235
	7,887	7,235	15,122
Balance carried forward	18,910	67,935	86,845
Less amount classified as current liability (<i>note 14</i>)	(18,910)	(5,084)	(23,994)
Balance at 31st December, 2005	-	62,851	62,851

Any losses not covered by external insurance are charged to the profit and loss account and unsettled amounts are included in the provision for liabilities and charges.

Notes to the Financial Statements (continued)

18. PROVISIONS FOR LIABILITIES AND CHARGES *(continued)*

(A) External Insurance Cover

The board has the following external insurance cover:

- (i) Iarnród Éireann – Irish Rail
Third Party Liability in excess of
 - (a) €5,000,000 on any one occurrence or series of occurrences arising out of any one rail transport event and
 - (b) €1,500,000 on any one occurrence or series of occurrences arising out of any one road transport event, except in the case of claims subject to United States jurisdiction where the excess is US\$3,300,000.
- (ii) Group
Third Party Liability in excess of €150,000 on any one occurrence or series of occurrences arising out of Other Risks events, except
 - (a) at Ossory Road, Dublin, in the case of flood damage, where the excess is a non-ranking €1,000,000, and
 - (b) any other flood damage where the excess is €250,000.
- (iii) Tours Operators' Liability for the Group with an indemnity of €2,000,000 on any one incident and in the aggregate, subject to an excess of €250,000.
- (iv) In addition, each of the subsidiary companies within the Group has aggregate cover in the twelve month period, April 2005 to March 2006, for rail and road transport third party liabilities in excess of a self insured retention of:

Iarnród Éireann – Irish Rail	€11,000,000
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subject to an overall Group self insured retention of €27,000,000.
- (v) Terrorism Public Liability cover for the Group of €10,000,000, subject to the excesses appropriate to the incident category.
- (vi) Group Combined Liability Insurance overall indemnity is €200,000,000 for the twelve month period, April 2005 to March 2006, for rail and road transport Third Party and Other Risks liabilities.
- (vii) Fire and Special Perils for the Group, including storm damage, with an indemnity of €200,000,000 in respect of Group's property in excess of €1,000,000 on any one loss or series of losses, with the annual excess capped at €5,000,000 in aggregate.
- (viii) Terrorism indemnity cover for the Group is €200,000,000 with an excess of €500,000 in respect of railway and road rolling stock and €150,000 in respect of other property damage, for each and every loss.

Notes to the Financial Statements (continued)

18. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(B) Third party and employer liability claims provisions and related recoveries

Provision is made at the year-end for the estimated cost of liabilities incurred but not finalised at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the company. The estimated cost of claims includes expenses to be incurred externally in managing claims but excludes the internal overhead of claims management fees. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of outstanding potential liabilities the company calculates individual file valuations to which contingency provisions are added with the assistance of external actuarial advice. The actuary's mathematical modelling is generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the potential liabilities to increase or reduce when compared with the cost of previously finalised claims including, for example, changes in the legal environment, the effects of inflation, changes in operational activity and the impact of large losses.

In estimating the cost of claims notified but outstanding, the company has regard to the accident circumstances as established by investigations, any information available from legal or other experts and information on court precedents on liabilities with similar characteristics in previous periods. Exceptionally serious accidents are assessed separately from the averages indicated by actuarial modelling.

The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimated liability for claims already notified to the company, because of the lack of any information about the claim event except in those cases where investigators have been called to the scenes of accidents. Claim types which have a longer development tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

Provisions for claims are calculated gross of any reinsurance recoveries. Reinsurance recoveries in respect of estimated IBNR claims are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to notification from the company's brokers of any re-insurers in run off.

Notes to the Financial Statements (continued)

19. DEFERRED INCOME

This account, comprising non-repayable EU grants, State grants, and other deferred income which will be credited to the profit and loss account on the same basis as the related fixed assets are depreciated (accounting policy E), is as follows:

	1st Jan 2005 €000	Received and Receivable €000	Amortised to Profit & Loss Account €000	31st Dec 2005 €000
Capital Grants				
Land and buildings	239	414	-	653
Railway lines and works	25,776	11,523	(1,251)	36,048
Railway rolling stock	331,978	165,691	(16,490)	481,179
Plant and machinery	197,128	76,296	(11,832)	261,592
Docks, harbours and wharves	14,573	-	(284)	14,289
Total capital grants	569,694	253,924	(29,857)	793,761
State grants – Railway Safety Investment Programme	31,451	-	(7,862)	23,589
Other deferred income	1,225	-	(35)	1,190
Total	602,370	253,924	(37,754)	818,540

	2005 €000	2004 €000
Shown as:		
Deferred income - amounts falling due within one year (note 14)	59,842	45,748
Deferred income - amounts falling due after more than one year	758,698	556,622
	818,540	602,370

The grants received under the Railway Safety Investment Programme (1999 – 2003) will be released to the profit and loss in accordance with the Railway Safety Investment Programme. Grants received and receivable in 2005 were Exchequer €169,832,132, EU €19,461,956, third party €1,216,742 and deferred funding €63,413,813.

Notes to the Financial Statements (continued)

20. SHARE CAPITAL	2005	2004
	€000	€000
Authorised:		
Ordinary shares of €1.27 each	95,230	95,230
Allotted, called up and fully paid		
Ordinary shares of €1.27 each	29,204	29,204
21. ASSET REPLACEMENT RESERVE		
Balance at 31st December	100,686	100,686
The directors consider that a transfer to this reserve is no longer appropriate.		
22. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS		
Surplus for the year after State grants	15,414	2,429
Exceptional operating costs (<i>note 5</i>)	(7,887)	(19,174)
Opening equity shareholders' fund	27,306	44,051
Closing equity shareholders' funds	34,833	27,306

Notes to the Financial Statements (continued)

23. CASH FLOW STATEMENT

	2005 €000	2004 €000
(A) Reconciliation of deficit to net cash inflow from operating activities		
Deficit before State grants and servicing of finance	(181,503)	(192,624)
State grants other than that applied to DART interest and renewals (<i>note 9</i>)	192,427	181,077
Deficit for the year before servicing of finance	10,924	(11,547)
Profit on disposal of tangible assets	(109)	(132)
Depreciation	57,011	61,533
Amortisation of capital grants (<i>note 19</i>)	(37,754)	(33,720)
(Increase)/decrease in stocks	(8,400)	5,597
Decrease in EU revenue grants	-	8,848
Increase in debtors	(6,150)	(52)
Increase in creditors and provisions	2,819	14,835
Net cash inflow from operating activities	18,341	45,362

(B) Analysis of net debt

	At 1st Jan. 2005 €000	Cash Flow €000	At 31st Dec. 2005 €000
Cash in hand	151	69	220
Bank overdraft	(23,463)	10,385	(13,078)
Loans	(165,066)	-	(165,066)
Finance leases	(49,357)	4,615	(44,742)
Intergroup balance	107,751	(32,017)	75,734
NDP Investment projects funded by C.I.É.	(94,667)	94,667	-
	(224,651)	77,719	(146,932)

Liquid resources comprise amounts owed by holding and fellow subsidiary companies, which represents cash generated and not immediately required for operations made available to other group companies, repayable on demand.

Notes to the Financial Statements (continued)

24. PENSIONS

The majority of the company's employees participate in defined benefit pension schemes based on final pensionable pay and operated for eligible employees of all CIÉ companies. Contributions by the company and the employees are invested in trustee-administered funds.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions as incurred over the employees' working lives with the Group as a stable percentage of expected future pay. Contributions to the schemes are determined by an independent actuary on the basis of annual reviews using the projected unit method.

Whilst the schemes are defined benefit schemes, the company is unable to identify its share of the underlying assets and liabilities of the schemes.

Details in relation to the schemes, required by FRS 17 (Retired Benefits), are contained in the accounts of Córas Iompair Éireann.

The actuarial position of Córas Iompair Éireann pension schemes at 31st December, 2005 was deficit €284.4 million (2004 - €287 million).

25. CAPITAL COMMITMENTS

	Contracted for €000	Authorised by the directors but not contracted for €000
2005		
Within one year	121,512	112,271
From two to five years	240,236	67,354
	361,748	179,625
Of which funding amounts to:	359,323	172,466
2004		
Total capital commitments	382,309	235,937

26. CONTINGENT LIABILITIES

(A) Pending Litigation

The company, from time to time, is party to various legal proceedings. It is the opinion of the directors that losses, if any, arising in connection with these matters will not be materially in excess of provisions made in the financial statements.

(B) Finance Leases

Under the terms of the finance leases there are contingent liabilities whereby material taxation changes affecting the lessors' tax liability on lease income will be offset by appropriate adjustments to lease rentals.

(C) Grants Receivable

All grant applications made to the EU are subject to a stringent audit process. As part of the process, an Audit Report in respect of one project, has raised some queries which were not resolved at the Balance Sheet date and are not expected to be finally resolved before mid 2006.

The Company is confident it is compliant with EU procedures and conditions but until the final report is available there exists a possibility that some elements of expenditure due to be claimed or claimed to date may be deemed ineligible. Under these circumstances some or all of the funding for certain projects may not be receivable and some grants received to date could become repayable.

Notes to the Financial Statements (continued)

27. RELATED PARTY TRANSACTIONS

Entities controlled by the Irish Government are related parties of the company by virtue of the Irish Government's control of the parent company, Córas Iompair Éireann.

In the ordinary course of business the company purchases goods and services from entities controlled by the Irish Government, the principal of these being the ESB, An Post, and An Bord Gáis. The directors are of the opinion that the quantum of these purchases is not material in relation to the company's business.

The financial statements of Córas Iompair Éireann provide the information required by the Financial Reporting Standard No. 8 concerning transactions between the company, its subsidiaries and the Irish Government.

28. MEMBERSHIP OF CÓRAS IOMPAIR ÉIREANN GROUP

Iarnród Éireann – Irish Rail is a member of the Córas Iompair Éireann Group of companies (the Group) and the financial statements reflect the effects of Group membership.

Reference in these financial statements to the Board means the Board of Córas Iompair Éireann.

Dubel Limited, a wholly owned subsidiary of Iarnród Éireann-Irish Rail, is incorporated in Northern Ireland with registered offices at Central Station, East Bridge Street, Belfast.

29. APPROVAL OF FINANCIAL STATEMENTS

The directors approved the financial statements on 5th April, 2006.