Annual Report and Financial Statements 2001

Tuarascáil Bhliantúil agus Ráitis Airgeadais don Bhliain 2001

Iarnród Éireann

CIE Group of Companies

Contents

NATIONAL DEVELOPMENT PLAN

Iarnrod 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.

Directors and Other Information

Directors at 29th April, 2002

· Chairman	Dr. J. J. Lynch
· Managing Director	Mr. J. Meagher
· Directors	Mr. P. Cullen, Mr. G. Duggan, Mr. P. Ellis, Mrs. T. Honan, Ms. A. M. Mannix, Mr. W. McCamley

Secretary	Mr. R. O'Farrell
and 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

WE'RE NOT THERE YET, BUT WE'RE GETTING THERE

38 NEW DART CARRIAGES INTRODUCED
OVER 18 MONTHS

Report of the Directors

The directors present their annual report together with the audited financial statements for the year ended 31st December, 2001.

Principal activities and business review

The principal activities of the company are the provision of national rail intercity and commuter passenger services, freight services, catering services and the management of Rosslare Europort.

Iarnród Éireann - Irish Rail is a member of the Córas Iompair Éireann group of companies. The chairman's statement and operations review in the financial statements of Córas Iompair Éireann contain a more detailed review of Iarnród Éireann business during 2001 and plans for the future.

During 2001 the company's services carried 34.2 million passengers - a 7.9% increase on the previous year. Total customer revenue increased by 8.5% to €197.1 million of which the mainline and suburban rail businesses accounted for €147.9 million.

Total operating costs increased by €54 million (17.2%) to €367.3 million. Payroll costs accounted for €33.1 million of the increase. The main contributing factors were (i) an increase in staff numbers to facilitate a transition to five day working for operational staff and compliance with more demanding safety standards and (ii) significant additional payroll costs arising from the PPF awards and implementation of recommendations for specific groups by the Labour Court and the Labour Relations Commission. Improved working arrangements are being put in place to under-pin a sharper focus on delivering an efficient service to our customers.

The company's profitability has deteriorated in 2001 and the deficit between revenue generated and operating costs is set to increase further in 2002. A thorough review of costs has yielded savings of approximately €8 million but they alone will not be sufficient to return the company to profitability. Other proposals to improve profitability are under review at present including fare levels. Consideration of public service payments has been under way for some time and progress on this issue is also required in order to fully address the severe financial problems faced by Iarnród Éireann. These measures will allow the company to continue to service the increasing demand for rail services and generate internal resources for reinvestment.

There was a very welcome increase in Exchequer and EU investment for the railway. This investment will enable Iarnród Éireann to continue it's programme of continuous improvements in railway safety and to upgrade and expand its Suburban and InterCity services.

The Foot and Mouth disease outbreaks during 2001 had a significant adverse impact on the company's Mainline, Rosslare Europort and Network Catering businesses. The company introduced stringent preventative measures to play its part in the successful national campaign to prevent the spread of the disease.

In July 2001 there was a major fire at the Fairview DART Depot resulting in significant damage to rolling stock and maintenance facilities. A satisfactory agreement has recently been reached with the company's insurers.

Results and reserves

The financial statements for the year ended 31st December, 2001 are set out in detail on pages 9 to 28. The results for the year ended 31st December, 2001 show a deficit of €7,186,000.

Future developments

The Minister for Public Enterprise has announced that a Strategic Rail Study will examine a range of proposals for railway services in various parts of the country and develop a 20 year blueprint for the future of the network to meet increasing demand for public transport. Iarnród Éireann welcomes this initiative and looks forward to contributing to the blueprint and implementing its recommendations.

The year 2001 was the third year of the five year Rail Safety Investment Programme. During 2002 work will begin on planning the next phase of the railway safety programme.

The rolling stock fleet was increased during 2001 with the introduction of 26 new DART units into service. The fleet will be further enhanced during 2002 with the introduction of 12 DART units and in the following years with the procurement of 80 diesel rail cars, DART units and the replacement of life expired InterCity rolling stock. A diesel rail car maintenance facility is being constructed in Drogheda to service the enlarged fleet. A major refurbishment program for Heuston Station, which will increase the number of platforms and upgrade track and signalling, is underway. The project will continue throughout 2002, with completion scheduled for Autumn 2003. These investments, to meet the increasing demand for public transport, are made possible by being fully funded under the National Development Plan through a combination of Exchequer and EU grants.

Report of the Directors

Introduction of the euro

During the year the company successfully completed its preparations to deal with the impact of the introduction of the euro. The total cost to the company was €709,000. Since the year end, the transition from Irish pounds to euro has been successfully managed.

Change Process negotiations

Change Process negotiations continued during the year, culminating in finalisation of a multiplicity of radically new agreements covering the vast majority of staff in Iarnród Éireann. The process, designed to build a new foundation for improved performance through the elimination of conflict surrounding pay and hours at work, based on restructured earnings and hours at work on the one hand, and greater efficiency and productivity on the other, is on course for completion during the first half of 2002.

Employee participation

Following an invitation from Iarnród Éireann, the Advisory Service of the Labour Relations Commission issued a report and recommendations to management and trade unions, pointing to new participative structures and relationships. This report was accepted by all parties and implementation of the associated recommendations was initiated jointly by management and trade unions during 2001.

Equal opportunities

The Equality Programme within the Human Resources Department has been further resourced and is actively engaged in a systematic education and support programme covering the full spectrum of issues arising in the work place and a review of the Equality Initiative was undertaken by an independent expert, and a progress report was published.

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at the company's head office Connolly Station, Amiens Street, Dublin 1.

Code of Best Practice

The requirements of the newly published Code of Practice for the Governance of State Bodies is being reviewed by management and will be reported on in next year's Annual Report.

Acknowledgement

The board were greatly saddened by the death of former Chairman, Mr. Michael McDonnell, who retired from the company in 2001.

Directors

The directors of the company are appointed by the chairman of Córas Iompair Éireann with the consent of the Minister for Public Enterprise. The names of the persons who were directors at any time during the year ended 31st December, 2001 are as set out below. Except where indicated they served as directors for the whole year.

Mr. M. P. McDonnell	**Chairman** (Retired 13th February, 2001)
Mr. J. Meagher	**Managing Director** (Reappointed 1st March, 2002)
Mr. P. Cullen	(Reappointed 1st December, 2001)
Mr. G. Duggan	(Reappointed 1st March, 2002)
Mr. P. Ellis	(Appointed 1st June, 2001)
Mrs. T. Honan	
Ms. A.M. Mannix	(Reappointed 1st December, 2001)

On the 29th April, 2002 the following were appointed as directors

Dr. J.J. Lynch, Chairman
Mr. W. McCamley

None of the directors or the secretary held any interest or any shares or debentures of the company, its holding company or its fellow subsidiaries at any time during the year.

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.

On behalf of the board

J. Meagher, Managing Director
G. Duggan, Director

29th April, 2002

Statement of Directors' Responsibilities

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

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 are responsible for keeping proper books of account that 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 2001. 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.

WE'RE NOT THERE YET, BUT WE'RE GETTING THERE

80 NEW COMMUTER RAILCARS UNDER
CONSTRUCTION TO ENTER SERVICE IN 2003

Report of the Auditors

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

We have audited the financial statements on pages 9 to 28.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2001. 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; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 of the state of the company's affairs at 31st December, 2001 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001.

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

In our opinion, the information given in the report of the directors on pages 3 and 4 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 12, 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 31st December, 2001, 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.

29th April, 2002.

WE'RE NOT THERE YET, BUT WE'RE GETTING THERE

COMMUTER CAPACITY MORE THAN DOUBLED ON MAYNOOTH SERVICE

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 2001. 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 and are expressed in euro, denoted by the symbol €. The comparative figures, which were previously presented in Irish pounds, have been restated at the fixed rate of €1=IR£0.787564.

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.

(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 with 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.

(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.

Principal Accounting Policies

(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 the 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 related employee severance is recognised and is included in the cost of severance.

(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

Year ended 31st December	Notes	2001 €000	2000 €000
Revenue		197,088	181,597
Costs			
Payroll and related costs	2	(188,754)	(155,661)
Materials and services	3	(147,726)	(120,689)
Depreciation less amortisation of capital grants	4	(30,842)	(38,340)
Exceptional operating income	5	-	1,397
Total operating costs		(367,322)	(313,293)
Profit on disposal of tangible assets	6	5,632	-
Deficit before interest and State grants		(164,602)	(131,696)
Interest Payable – operational	7	(7,511)	(8,501)
– railway infrastructure	7	(4,010)	(4,186)
Total interest		(11,521)	(12,687)
Deficit for the year before State grants		(176,123)	(144,383)
State grants	8	168,937	147,131
Change in the profit and loss account for the year	1(G)	(7,186)	2,748
Accumulated deficit at beginning of the year		(36,772)	(39,520)
Accumulated deficit at end of the year		(43,958)	(36,772)

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

J. Meagher Managing Director

G. Duggan Director

Balance Sheet

As at 31st December	Notes	2001 €000	2000 €000
Fixed assets			
Tangible fixed assets	9	531,417	493,979
Financial assets	10	20	20
		531,437	493,999
Current assets			
Stocks	11	53,600	38,939
Debtors	12	176,775	183,235
Cash at bank and in hand		97	94
		230,472	222,268
Creditors (amounts falling due within one year)	13	(271,446)	(227,757)
Net current (liabilities)		(40,974)	(5,489)
Total assets less current liabilities		490,463	488,510
Creditors (amounts falling due after more than one year)	14	(70,824)	(91,741)
Provisions for liabilities and charges	17	(51,474)	(56,737)
Deferred income	18	(282,233)	(246,914)
		85,932	93,118
Financed by:			
Capital and reserves			
Called up share capital	19	29,204	29,204
Asset replacement reserve	20	100,686	100,686
Profit and loss account		(43,958)	(36,772)
Shareholders funds	21	85,932	93,118

On behalf of the board

J. Meagher Managing Director

G. Duggan Director

Cash Flow Statement

Year ended 31st December	Notes	2001 €000	2000 €000
Net cash inflow from operating activities	22(A)	10,334	41,198
Servicing of finance			
Interest paid	7	(8,120)	(8,901)
Interest element of finance lease rentals	7	(3,401)	(3,786)
State grant - DART interest	8	4,819	5,817
Net cash outflow from servicing of finance		(6,702)	(6,870)
Investing Activities			
Purchase of tangible assets		(201,385)	(199,935)
Sale of tangible assets		-	50
Capital grants		148,485	199,382
Net Cash outflow from investing activities		(52,900)	(503)
Net Cash (outflow) / Inflow before management of liquid resources and financing	22(B)	(49,268)	33,825
Management of liquid resources	22(B)	46,230	(38,619)
Financing			
Capital element of finance lease rentals		(3,891)	(3,824)
Net Cash (Outflow) from Financing	22(B)	(3,891)	(3,824)
Decrease in cash in the year	22(B)	(6,929)	(8,618)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		(6,929)	(8,618)
Cash (outflow) / inflow from holding company balance and lease financing		(42,339)	42,443
Movement in net debt in the year		(49,268)	33,825
Net debt at 1st January		(121,349)	(155,174)
Net debt at 31st December		(170,617)	(121,349)

Notes to the Financial Statements

	2001	2000
	€000	€000
1. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT		
(A) Mainline rail division		
Revenue	115,016	103,763
Expenditure		
Maintenance of rolling stock	(40,232)	(38,909)
Fuel	(13,852)	(7,077)
Operating and other expenses	(104,245)	(86,109)
Operating depreciation	(15,521)	(23,041)
Amortisation of capital grants	5,379	3,623
Total expenditure	(168,471)	(151,513)
Operating deficit before operating interest payable and State grants	(53,455)	(47,750)
Interest payable	(5,202)	(5,145)
Deficit for the year before State grants	(58,657)	(52,895)
(B) Suburban rail division		
Revenue	32,837	30,133
Expenditure		
Maintenance of rolling stock	(12,366)	(7,945)
Fuel (including electricity for traction)	(3,508)	(2,553)
Operating and other expenses	(29,573)	(18,491)
Operating depreciation	(14,415)	(12,740)
Amortisation of capital grants	3,086	1,146
Total Expenditure	(56,776)	(40,583)
Operating deficit before operating interest payable and State grants	(23,939)	(10,450)
Interest payable	(2,229)	(3,295)
Deficit for the year before State grants	(26,168)	(13,745)
(C) Railway infrastructure		
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	(68,445)	(57,593)
Renewal of railway lines and works	(121,868)	(100,676)
Operating (signalling) and other expenses	(21,786)	(17,978)
Depreciation *(note 9 (d))*	(9,499)	(5,537)
Amortisation of capital grants	2,433	801
Total expenditure	(219,165)	(180,983)
Operating deficit before operating interest payable and grants	(219,165)	(180,983)
Interest payable *(note 7)*	(4,010)	(4,186)
Deficit for year before grants	(223,175)	(185,169)
State grants, EU and Exchequer Funding	220,379	185,169
Deficit for the year	(2,796)	-
Apportionment of costs;		
Mainline rail division	190,661	156,898
Suburban rail division	32,514	28,271
Total costs infrastructure	223,175	185,169

Notes to the Financial Statements

	2001	2000
	€000	€000
1. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)		
(D) Road freight division		
Revenue		
Goods services	26,049	25,374
Miscellaneous	59	85
Total revenue	26,108	25,459
Operating costs		
Maintenance of vehicles and equipment	(1,534)	(1,508)
Fuel	(332)	(571)
Road tax and licences	(85)	(102)
Operating and other expenses	(21,692)	(20,654)
Operating depreciation	(523)	(543)
Total expenditure	(24,166)	(23,378)
Net surplus for the year	1,942	2,081
(E) Rosslare Harbour division		
Revenue		
Harbour services	9,719	10,032
Operating costs		
Maintenance, operating and other expenses	(5,889)	(5,122)
Operating depreciation	(1,806)	(1,682)
Amortisation of capital grants	738	672
Total expenditure	(6,957)	(6,132)
Operating surplus before interest payable	2,762	3,900
Interest payable	(80)	(61)
Net surplus for the year	2,682	3,839
(F) Catering services division		
Revenue		
Ground and train catering	13,408	12,208
Operating Costs		
Maintenance of buildings, cars and equipment	(246)	(134)
Provisions	(5,055)	(4,777)
Other direct expenses	(5,692)	(5,117)
Other expenditure	(2,661)	(2,796)
Total expenditure	(13,654)	(12,824)
Net deficit for the year	(246)	(616)

Notes to the Financial Statements

	2001 €000	2000 €000
1. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)		
(C) Company Result		
Mainline rail	(58,657)	(52,895)
Suburban rail	(26,168)	(13,745)
Infrastructure	(2,796)	-
Road freight	1,942	2,081
Rosslare Harbour	2,682	3,839
Catering services	(246)	(616)
	(83,243)	(61,336)
Profit on disposal of tangible assets	5,632	50
Exceptional operating income	-	1,397
Deficit for the year before grants	(77,611)	(59,889)
Grants	70,425	62,637
Change in the profit and loss account for the year	(7,186)	2,748

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

2. PAYROLL AND RELATED COSTS

	2001 €000	2000 €000
Staff costs		
Wages and salaries	193,061	160,097
Social welfare costs	19,178	15,062
Other pension costs	7,626	6,520
	219,865	181,679
Own work capitalised, renewals and engineering work for group companies	(31,332)	(26,226)
Net staff costs	188,533	155,453
Directors' remuneration		
Emoluments		
- for services as directors	10	5
- for other services	211	203
Total directors' remuneration and emoluments	221	208
Total payroll and related costs	188,754	155,661

	Staff Numbers 2001	Staff Numbers 2000
The average number of employees by activity, was		
- Railway Operations	3,169	2,773
- Infrastructure	1,983	2,013
- Road Freight	174	189
- Rosslare Harbour	89	84
- Catering	309	299
Total	5,724	5,358

Notes to the Financial Statements

	2001	2000
	€000	€000
3. MATERIALS AND SERVICES		
Operating and other costs	63,753	50,764
Maintenance - railway rolling stock	25,623	23,382
Maintenance - railway lines and works	31,442	25,190
Fuel and electric traction	14,217	9,197
Third party and employer's liability claims	6,999	6,748
Rates	2,344	2,132
Operating lease rentals	3,182	3,075
Road tax and licences	85	102
Auditors' remuneration	81	99
Total materials and services	147,726	120,689

4. DEPRECIATION

	2001	2000
Depreciation	42,608	44,657
Amortisation of capital grants (note 18)	(11,766)	(6,317)
Total depreciation	30,842	38,340

5. EXCEPTIONAL OPERATING INCOME

	2001	2000
Insurance Proceeds	-	(1,397)
Total exceptional operating income	-	(1,397)

6. PROFIT ON THE DISPOSAL OF TANGIBLE ASSETS

	2001	2000
Disposal of DART carriages	5,632	-
Total profit on disposal of tangible assets	5,632	-

The profit on the disposal of tangible assets arises from the fire at the Fairview depot, which destroyed 4 DART carriages. The profit is calculated by netting the insurance proceeds against the then net book value.

7. INTEREST PAYABLE

	2001	2000
On loan from holding company	8,120	8,901
On finance leases	3,401	3,786
	11,521	12,687
Interest apportioned:-		
Operational costs	7,511	8,501
Railway infrastructure costs *(note 1 (c))*	4,010	4,186
	11,521	12,687

Notes to the Financial Statements

8. 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 €322 million received in 2001 are given in the following table, showing the relevant provision of EU regulations. A sum of €6.9 million in relation to grants received on buildings was passed back to the holding company.

	EU Regulation Number		
	1191/69	1107/70 (Article 4)	Total
	€000	€000	€000
Revenue related			
Mainline rail			
Operation of passenger services	111,559	-	111,559
Residual deficit - State grants	-	7,125	7,125
	111,559	7,125	118,684
Suburban rail			
Operation of passenger services	10,361	-	10,361
Sub total	121,920	7,125	129,045

	EU Regulation Number		
	1192/69	1107/70 (Article 3.1(b))	Total
	€000	€000	€000
Expenditure related			
Mainline rail			
Normalisation of accounts			
- Class III (pensions)	3,785	-	3,785
- Class IV (level crossings)	6,166	-	6,166
- Infrastructure grant (freight)	-	1,623	1,623
	9,951	1,623	11,574
Suburban rail			
Normalisation of accounts			
- Class III (pensions)	554	-	554
- Class IV (level crossings)	28	-	28
	582	-	582
Sub total	10,533	1,623	12,156
Total			141,201
Add State grant for DART interest - EU regulation. 1191/69			4,819
Sub total State subvention			146,020
Add State grant for NDP			175,852
Total State grants received			321,872

The total funding received was applied as follows:	
Profit and loss account	168,937
Credit against the renewals of railway lines and works *(note 9 (a))*	121,868
Deferred income	31,067
Total	321,872

Notes to the Financial Statements

9. TANGIBLE FIXED ASSETS

	1st Jan 2001 €000	Reclassifications €000	Additions €000	Scrappings & Disposals €000	31st Dec 2001 €000
Cost					
Railway Lines and works	402,167	2,794	141,407	-	546,368
Railway rolling stock	419,981	-	24,169	(3,405)	440,745
Road freight vehicles	7,664	-	122	-	7,786
Plant and machinery	231,909	2,829	36,727	-	271,465
Catering equipment	1,130	-	-	-	1,130
Docks, harbours and wharves	42,509	(52)	-	-	42,457
Capital work in progress	7,611	(6,335)	1,305	-	2,581
Sub total	1,112,971	(764)	203,730	(3,405)	1,312,532
Funding received for railway lines and works	(215,930)	-	(121,868)	-	(337,798)
Total	897,041	(764)	81,862	(3,405)	974,734

	1st Jan 2001 €000	Reclassifications €000	Charge for year 2001 €000	Scrappings & Disposals €000	31st Dec 2001 €000
Depreciation					
Railway Lines and works	384,685	-	122,335	-	507,020
Railway rolling stock	130,773	-	27,053	(2,353)	155,473
Road freight vehicles	5,545	-	509	-	6,054
Plant and machinery	89,356	-	13,661	-	103,017
Catering equipment	791	-	69	-	860
Docks, harbours and wharves	7,842	-	849	-	8,691
Sub total	618,992	-	164,476	(2,353)	781,115
Funding received for railway lines and works	(215,930)	-	(121,868)	-	(337,798)
Total	403,062	-	42,608	(2,353)	443,317

	2001 €000	2000 €000
Net book amounts		
Railway lines and works	39,348	17,482
Railway rolling stock	285,272	289,208
Road freight vehicles	1,732	2,119
Plant and machinery	168,448	142,553
Catering equipment	270	339
Docks, harbours and wharves	33,766	34,667
Capital work in progress	2,581	7,611
Total	531,417	493,979

Notes to the Financial Statements

	2001	2000
	€000	€000

9. **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.

	2001 €000	2000 €000
Renewals expenditure and related grants were as follows		
Renewals expenditure	129,794	100,676
State grants	121,868	100,676

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

	Lives (Years)
Railway lines and works	40
Railway rolling stock	15-20
Road freight vehicles	6-10
Plant and machinery	3-25
Docks, harbours and wharves	50
Catering equipment	4

(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.

(d) Tangible assets include railway infrastructure assets as follows:

	2001 €000	2000 €000
Cost	407,516	371,780
Accumulated depreciation	(245,523)	(236,024)
Net book value	161,993	135,756
Depreciation for year *(note 1 (c))*	(9,499)	(5,537)

(e) Included in the reclassification of tangible assets is €764,000 which was expensed to the profit and loss account during the year. The expenditure related to feasibility studies on projects which it was decided not to proceed with.

(f) Included in additions above are payments on account in respect of railway rolling stock which were not yet in service:

	2001 €000	2000 €000
Railway rolling stock	28,103	63,418

Notes to the Financial Statements

	2001	2000
	€000	€000

9. TANGIBLE FIXED ASSETS (continued)

(g) 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:

	2001 €000	2000 €000
Cost	85,486	85,377
Accumulated depreciation	(22,410)	(17,598)
Net book value	63,076	67,779
Depreciation for year	(4,812)	(4,801)

10. FINANCIAL ASSETS

	2001 €000	2000 €000
Trade investments - listed shares		
Cost or valuation at 1st January	63	63
Provision for permanent diminution in value at 31st December	(43)	(43)
Net book amounts at 31st December	20	20
Market value at 31st December	49	49

11. STOCKS

	2001 €000	2000 €000
Rolling stock, spare parts and maintenance materials	14,433	10,948
Infrastructure stocks	33,315	24,902
Fuel, lubricants and other sundry stocks	5,852	3,089
	53,600	38,939

These amounts include parts and components necessarily held to meet long-term operational requirements. The replacement value of stocks is not materially different from their book value.

12. DEBTORS

	2001 €000	2000 €000
Trade debtors	10,784	9,771
Amounts owed by holding and fellow subsidiary companies	73,432	119,662
EU and State grants receivable	72,131	45,610
Other debtors and accrued income	20,428	8,192
	176,775	183,235

Notes to the Financial Statements

	2001 €000	2000 €000
13. CREDITORS (amounts falling due within one year)		
Bank overdraft	19,053	12,121
Trade creditors	50,106	38,759
Loan from holding company *(note 15)*	150,253	133,335
Finance lease obligations *(note 16)*	4,016	3,908
Income tax deducted under PAYE	414	345
Pay related social insurance	433	304
Value added tax and other taxes	1,383	1,846
Other creditors	162	179
Accruals	13,653	5,710
Restructuring provision *(note 17)*	10,179	15,237
Third party and employer's liability claims *(note 17)*	3,901	4,247
Deferred income *(note 18)*	17,893	11,766
	271,446	227,757
Creditors for taxation and social welfare included above	13,420	7,485

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

	2001 €000	2000 €000
Loan from holding company *(note 15)*	14,813	31,731
Finance lease obligations *(note 16)*	56,011	60,010
	70,824	91,741

15. LOAN FROM HOLDING COMPANY

	2001 €000	2000 €000
This loan is repayable as follows:		
Within one year *(note 13)*	150,253	133,335
Between one and two years *(note 14)*	7,312	9,793
Between two and five years *(note 14)*	7,501	21,938
After five years	-	-
	14,813	31,731
	165,066	165,066

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 €145,822,498 (2000 - €80,628,370) 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

	2001	2000
	€000	€000
16.LEASE OBLIGATIONS		
(A) Finance leases		
Net obligations under finance leases fall due as follows:		
Within one year *(note 13)*	4,016	3,908
Between one and five years *(note 14)*	18,159	17,327
After five years *(note 14)*	37,852	42,683
	56,011	60,010
	60,027	63,918
(B) Operating leases		
Commitments under non-cancellable operating leases payable in the coming year expire as follows:-		
Within one year	2,279	1,718
Between one and five years	2,735	2,943
	5,014	4,661

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring Provision	Third Party and Employer's Liability Claims	Total
	€000	€000	€000
Balance at 1st January, 2001	23,037	53,183	76,220
Utilised during the year	(12,858)	(4,807)	(17,665)
Transfer from profit and loss account	-	6,999	6,999
Balance carried forward	10,179	55,375	65,554
Less amount classified as current liability *(note 13)*	(10,179)	(3,901)	(14,080)
Balance at 31st December, 2001	-	51,474	51,474

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

17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(A) External Insurance Cover

Córas Iompair Éireann has on behalf of the company the following external insurance cover:

(i) third party liability in excess of €3,809,210 and up to €143,480,400 on any one occurrence or series of occurrences arising out of any one rail event;

(ii) third party liability in excess of €1,269,740 and up to €140,940,930 on any one occurrence or series of occurrences arising out of any one road transport event, except in the case of actions taken for road claims subject to United States jurisdiction where the excess is US$3,000,000;

(iii) third party liability in excess of €63,490 and up to €139,734,680 on any one occurrence or series of occurrences arising out of all other risks events, except in the case of actions taken for all other risks claims subject to United States jurisdiction where the excess is US$100,000;

(iv) rail and road transport liabilities in excess of a self insured retention of €8,399,320 in aggregate in a twelve month period, April 2001 to March 2002; and

(v) fire and special perils, including storm damage, property in excess of €253,950 on any one loss.

(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.

Notes to the Financial Statements

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

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.

18. **DEFERRED INCOME**

This account, comprising non-repayable EU 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), comprises the following:

	1st Jan 2001 €000	1st Jan 2001 Reclassified €000	Received and Receivable €000	Amortised to Profit & Loss A/c €000	31st Dec 2001 €000
Capital grants					
Railway lines and works	-	32	12,714	(99)	12,647
Railway rolling stock	116,421	-	12,769	(4,848)	124,342
Plant and machinery	67,173	(32)	27,729	(3,525)	91,345
Docks, harbours and wharves	15,605	-	-	(319)	15,286
Total capital grants	199,199	-	53,212	(8,791)	243,620
State grants - Railway Safety Investment Programme (1999 - 2003)	58,012	-	-	(2,975)	55,037
Other deferred income	1,469	-	-	-	1,469
Total	258,680	-	53,212	(11,766)	300,126

Notes to the Financial Statements

	2001	2000
	€000	€000
18. DEFERRED INCOME (continued)		
Shown as:		
Deferred income-amounts falling due within one year *(note 13)*	17,893	11,766
Deferred income-amounts falling due after more than one year	282,233	246,914
	300,126	258,680

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.

	2001	2000
19. SHARE CAPITAL		
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

20. ASSET REPLACEMENT RESERVE

	2001	2000
Balance at 31st December	100,686	100,686

The directors consider that a transfer to this reserve is no longer appropriate.

21. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2001	2000
(Deficit) / surplus for the year after State grants	(7,186)	2,748
Opening equity shareholders' funds	93,118	90,370
Closing equity shareholders' funds	85,932	93,118

22. CASH FLOW STATEMENT

	2001	2000
(A) Reconciliation of deficit to net cash inflow from operating activities		
Deficit before State grants and servicing of finance	(164,602)	(131,696)
State grants other than that applied to DART interest and renewals *(note 8)*	164,118	141,314
(Deficit)/surplus for year before servicing of finance	(484)	9,618
Profit on disposal of tangible assets	(5,632)	(50)
Depreciation	42,608	44,657
Write off of capital wip - feasibility studies	764	-
Amortisation of capital grants *(note 18)*	(11,766)	(6,317)
Increase in stocks	(14,661)	(9,634)
Increase/(decrease) in EU revenue grants	72	(3,944)
(Increase)/decrease in debtors	(7,774)	7,081
Increase/(decrease) in creditors and provisions	7,207	(213)
Net cash inflow from operating activities	10,334	41,198

Notes to the Financial Statements

22. CASH FLOW STATEMENT (continued)

(B) Analysis of net debt

	At 1st Jan. 2001 €000	Cash Flow €000	At 31st Dec. 2001 €000
Cash in hand	94	3	97
Bank overdraft	(12,121)	(6,932)	(19,053)
Loans	(165,066)	-	(165,066)
Finance leases	(63,918)	3,891	(60,027)
Holding company balance	119,662	(46,230)	73,432
	(121,349)	(49,268)	(170,617)

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.

23. 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. The most recent valuation of the schemes was performed as at 31st December, 2001. The valuation indicated a surplus of €69.2 million in the schemes.

24. CAPITAL COMMITMENTS

	2001 €000	2000 €000
Contracted for	180,469	173,913
Authorised by the directors but not contracted for	52,751	39,891
	233,220	213,804

Notes to the Financial Statements

25. 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.

26. 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 Bord Gais. 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.

27. .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.

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.

28. APPROVAL OF FINANCIAL STATEMENTS

The directors approved the financial statements on 29th April 2002.

PHOTOGRAPHERS : NEIL WARNER : JONATHAN MC DONNELL **DESIGN :** CREATIVE INPUTS

PN No. 11385