Córas Iompair Éireann

2004

ANNUAL REPORT AND FINANCIAL STATEMENTS 2004

PRN. No. 0150

Contents

Córas Iompair 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.

Photographers: Gerry Grace, Mark McCall and Neil Warner

Design: First Impression

Chairman's Statement

Investment leads to 25 million extra passengers

In 2004 the CIÉ Group returned a surplus of €20.5 million which represents an increase of €24.5 million on the preceding year.

Despite major engineering work on the DART and continuing gridlock in our cities, the Group held its market share in 2004. During the year 800,000 rail and bus journeys were made daily for work and leisure travel and maintained a clear trend whereby, year-on-year, more people are switching to public transport.

CIÉ with government and EU financial support has spent €1.7 billion since 2000 in an investment programme which has radically modernised public transport as well as improved railway safety systems. More railway track was laid in this period than over the last 100 years.

This investment has led directly to 25 million extra passenger journeys now being made by public transport.

The number of journeys made by our customers has risen from 250 million in 2000 to 275 million in 2004. The Board is pleased that the renewal programme is to continue with Government approval for a €460 million investment for 223 new rail carriages over the next three years, replacing all of the 30-40 year old carriages in the fleet.

During the year the Group kept up strong cost control while maintaining its policy of maximising the return on Government investment in order to boost public transport usage at an economic price to the customer.

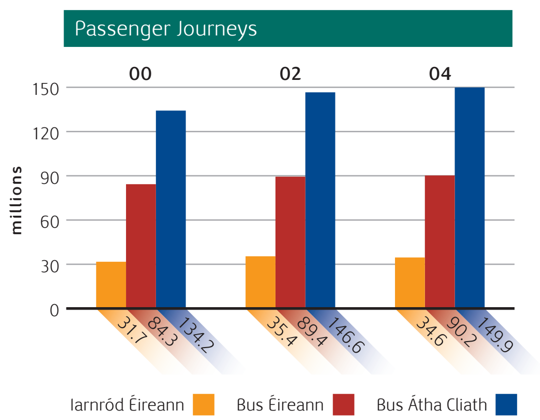
Exceptional one-off costs of €19.2 million were incurred for restructuring at Iarnród Éireann. In addition, urban traffic gridlock cost the CIÉ companies an estimated €69 million in 2004.

Other factors also led to a good result for the CIÉ Group. Revenue increased from €662 million (2003) to €683 million in 2004 and CIÉ also had a very successful year in its property management with gross rental income of €14 million.

The company made a further €24 million profit from the sale of surplus land and buildings including the former freight yard at Carnlough road in Dublin. Advertising on trains, buses and station sites yielded a net profit in excess of €5 million and CIE Tours also had a satisfactory year.

This result is all the more striking considering that half the DART service was shut down for most weekends during the year, as part of the necessary DART Upgrade project. This project will provide a doubling of capacity on the DART since 2000 when completed later this year.

The CIÉ Group companies continue to give good value for money when benchmarked against our European partners. Bus Átha Cliath and Bus Éireann are in the top quartile in terms of performance and Iarnród Éireann's fares are amongst the lowest in Europe.



To cater for the rising passenger numbers on Intercity services, the total modernisation of the core radial railway network was completed during 2004. In the six years it took Iarnród Éireann to upgrade these lines, more of the network was upgraded than had been over the preceding 100 years.

The development of our bus services also continued. In Dublin the new garage at Harristown was completed and became operational during the year to serve the future needs of the Bus Átha Cliath fleet.

Chairman's Statement

All these developments have taken place in a climate of effective cost control at the Group with all of our significant projects coming in on time and on or below budget.

Investment: Invisible but necessary

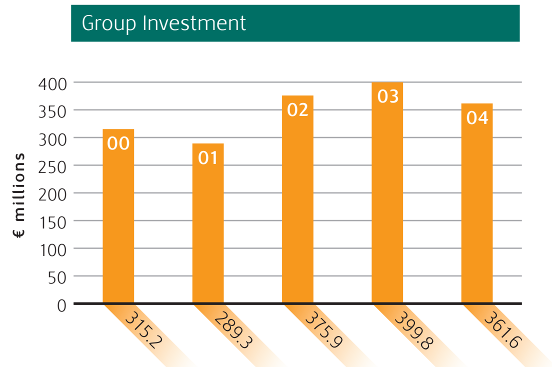
Much of the €650 million investment in modernising the 420 miles of track on the core Intercity network and introducing computer controlled signalling and new crossings and bridges is invisible to customers who want new, modern, comfortable trains, running to time.

Now the time has come when customers can enjoy the result of this investment as we start to deliver large numbers of new trains and extra services to the Intercity and the commuting customer alike.

The investment programme has delivered:

- 420 miles of high-speed rail track with up-graded infrastructure.
- DART fleet doubled in size in five years with 78 new carriages since 2000.
- Commuter fleet boosted from 17 carriages to 144 since 1999
- 36 more railcars for delivery later this year.
- New garage at Harristown, Dublin for Bus Átha Cliath
- 36 new double-decker replacement buses for Bus Átha Cliath
- 68 new buses and coaches for Bus Éireann

The new trains and buses have been complemented by new customer service systems such as in-station and on-board information displays, automatic ticket vending machines. Bus Átha Cliath's BUSTXT together with DARTXT have introduced the first real-time public transport timetable systems to mobile phones in Ireland.



Safety Review: Passenger accidents cut by up to 22%

Safe rail and road operations is a core value of the CIÉ Board and during 2004 a thorough safety review was carried out throughout the Group to improve our safety systems and to ensure that there is a fully accountable and adequate response should an accident occur.

This exercise was carried out following the tragic accident, which occurred in February last year at Wellington Quay in Dublin, in which five people died, and many more were injured. Again I would like to take this opportunity to extend my sympathy and that of the Board, the management and all of the staff of CIÉ to those whose lives were affected or touched by this terrible accident which was the worst ever to occur on Bus Átha Cliath services.

Following this review passenger accidents on Bus Átha Cliath services reduced by 12% during the year and are now lower than they have been for over 10 years, despite a larger fleet and increased road activity. This has been achieved through the successful implementation of a variety of training and monitoring programmes, coupled with continuing positive staff participation and co-operation. Over 60% of all drivers are accredited with the Institute of Advanced Motoring (IAM) certification.

Chairman's Statement

Over 90% of Bus Éireann drivers have passed the IAM advanced driving test

Bus Éireann also has had a 22% reduction in passenger accidents during 2004. This followed the implementation of Bus Éireann's Safety Plan, with over 90% of Bus Éireann drivers passing the IAM driving test and with many more drivers expected to complete the course during 2005.

The main element in the Safety Plan is the promotion of defensive driving to an advanced level as well as the provision of regular refresher courses for the company's drivers. Remedial training is also provided to help drivers reach advanced level.

The two bus companies had expected that the emphasis on defensive driving would lead to an annual 5% reduction in passenger accidents but it is now clear that this approach to driving can lead to much more significant road safety results.

The year 2004 was also a milestone year for rail safety, with the completion in December of the last sections of track on the core radial network to be upgraded. There is a huge safety dividend with over 420 miles of track modernised from jointed track on timber sleepers to modern continuous welded rail on concrete sleepers. This upgrading gives many safety benefits as well as journey time improvements on the recently completed routes from Dublin.

Investment Payback: New faster trains, extra services

At the end of 2004, a record order was placed for a new fleet of 120 railcars for Intercity services at a cost of €262 million which is being funded by the Irish Government under the National Development Plan.

By the time this record order is fully in service in 2008, our entire railway fleet will have been modernised – all the 30 and 40 year old carriages will be replaced. We will have 67 new Intercity carriages on the Dublin-Cork route; modern railcars operating Dublin-Sligo and Dublin-Rosslare, as well as branch lines; and these 120 railcars will serve Mayo, Galway, Limerick, Kerry and Waterford.

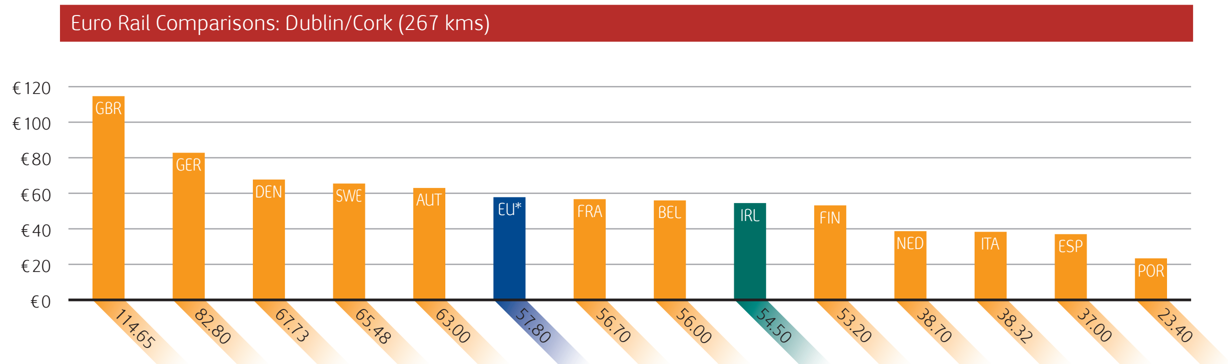
There will be more frequent services on these routes – hourly between Cork and Dublin next year and greater choice of services on all routes as the new fleet arrives. With clock face timetabling, and seat reservation systems online, planning rail journeys will be easier than ever.

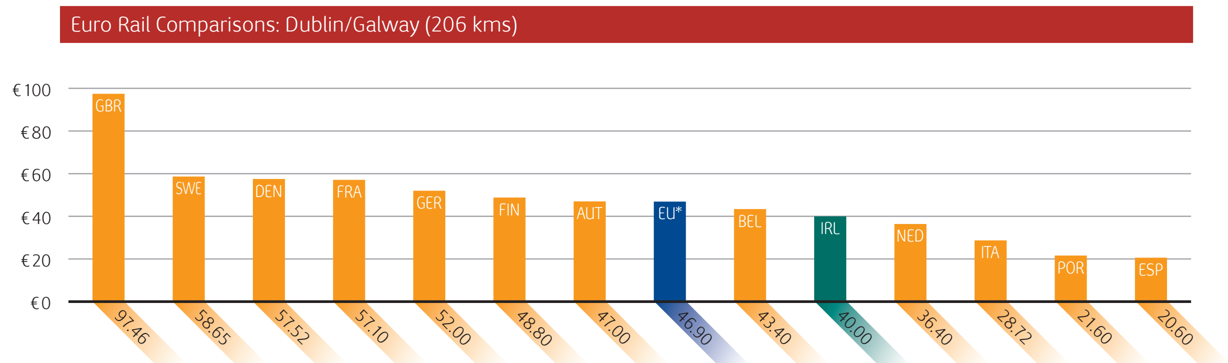
Irish fares among lowest in Europe

New figures (see graphs on the following page) have shown that Intercity rail fares in Ireland remain amongst the lowest in the EU, and up to 40% lower than the average European fare. The comparisons show that only Spanish, Portuguese, Italian and Netherlands commuters are consistently paying less, with some rail companies charging more than double Irish fares for equivalent distances. The rail fare data is good news for Irish consumers, after recent surveys in other industry sectors showed Irish prices near the top of the Euro league.

These findings show that we are extremely competitive in our pricing when compared with other European railways, even more so when one considers the economies of scale and heavy State support enjoyed by many of these networks. With more and more of the benefits of investment reaching our customers this year and in the coming years, we will be delivering even better value for money in the future.

Chairman's Statement





*All figures in euro. Fares represent standard walk-on open weekend return rail fares. Luxembourg not included – no equivalent distances; no current data available for Greece. European fares based on journeys within +/- 10km of equivalent Irish journey. E.g. Dublin-Cork 267km, France: Lyon-Arles 265km. *EU figure is average of fares surveyed – fares surveyed July 2004*

Bus Átha Cliath: Ranks among top Euro bus companies

Last year Bus Átha Cliath continued to outperform most city bus services throughout the European Union and returned a surplus in excess of €2 million for 2004. With customer numbers for the year at 150 million, the company continues to hold its market share, turning in a very creditable result in spite of operating in what, is now considered by transport experts, as some of the worst congestion and gridlock in Europe.

Passenger journeys have risen from 134 million in 2000 to almost 150 million in 2004 helped by the progressive development of the network and improving customer service. Bus Átha Cliath is by far the biggest public transport provider in Ireland when compared with other providers such as Luas forecasting 20 million passengers.

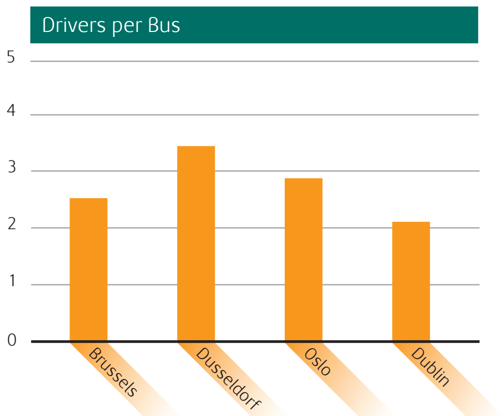
Like all similar urban public transport companies in Europe, Bus Átha Cliath received a PSO (Public Service Obligation) payment, commonly known as subvention, from Government. For 2004 this was at 26% of its operating costs (approximately €62 million).

Bus Átha Cliath still has one of the lowest subsidy levels in Europe

European research shows Bus Átha Cliath maintaining its rank in the top quartile of all bus companies across the continent, when measured in terms of customer satisfaction, comfort and safety, service reliability, fleet quality, and frequency of service and staff behaviour. It is also one of the lowest subsidised European publicly-owned bus companies.

Chairman's Statement

The company has displayed great flexibility in providing solutions to improved mobility for the gridlocked capital. Revenue growth has remained strong even though the company's congested operating environment is costing the company an estimated €49 million a year extra due to the city's chronic traffic congestion according to the latest BDO Simpson Xavier Consulting estimates.

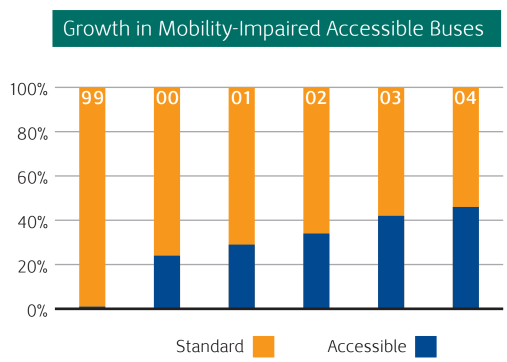


In addition, the bus product continues to take the lead in the medium term in moving forward the Government's project to get more people out of cars and on to public transport.

Bus Átha Cliath operates a fleet of 1,065 buses over 180 routes for 20 hours per day traveling 50 million kilometres per year. The company has become increasingly more flexible in recent years and where resource re-allocation opportunities have arisen we have introduced the following innovations:

- New route, No. 92, which now connects Heuston Station and St. Stephen's Green via O'Connell Street
- A New Centre Link service has been introduced to link both the Luas Tallaght and Sandyford lines.
- Expanded routes to meet growing population such as Pelletstown and areas of South Dublin.
- Accessibility – in 2004 the company reached a 45% accessibility level for mobility-impaired customers – almost one third of the fleet is now so equipped.
- Bus Átha Cliath policy is to achieve full 100% mobility-impaired accessibility over the next few years.

Despite these difficulties we continue to plan for future expansion. To cater for the ongoing growth of our services, Bus Átha Cliath's new garage at Harristown was completed and became operational in 2004. It is the first new garage built by CIÉ in over 30 years. This garage, on an 11-acre site, was completed on budget and on schedule at a cost of €42 million. It has capacity for over 240 buses and can facilitate staff numbers of up to 700.



Iarnród Éireann: Dawn of a new 21st century railway

Iarnród Éireann returned an operating surplus of €2.4 million, before one-off restructuring costs of €19.2 million up from an operating deficit of €19.4 million just two years ago. This greatly improved performance was due to a vigorous policy of cost control, increased ticket sales and operating efficiencies.

Over €1.3 billion has been spent in rebuilding the railways since 1999, with new trains and upgraded stations as well as modern high-speed track. This results from Government and EU support for the investment programme.

Chairman's Statement

Out of the pain has come the gain; with the return on this investment visible in growth in demand for Intercity, DART and Commuter service, with rail passengers making 34.6 million journeys during 2004.

In renewing its core routes Iarnród Éireann maintained its strong record of delivering major projects on time and on or better than budget.

During 2004 the following projects were successfully delivered:

- €117 million redevelopment of Heuston Station was completed on time and under budget and will ensure that Heuston can cater for the greater train frequencies planned in the near future.
- Completion of platform lengthening and overhead line renewal on Southside as part of €176 million DART Upgrade project, which is also on time and on budget. The project creates the capacity for the future commuter boom.
- 80 new commuter railcars entered service in 2003 and 2004 with additional capacity for up to 12,000 more peak customers daily across the Maynooth, Drogheda and Kildare commuter services.
- 40 new DART cars, at a cost of €80 million, were delivered ahead of schedule in 2004. These are being phased into service during 2005 and will then bring the size of the DART fleet to 154 – up from an original 80 in 2000.

New trains to bring higher speeds and shorter journey times

Daily passenger carryings on the DART are up to 90,000, and the new carriages, coupled with the ongoing DART Upgrade programme, will allow 8-carriage DART trains to operate across the service from the end of 2005. This will complete a 100% increase in train size and capacity for customers since 2000.

As a major contribution to rail safety, in 2004, there was the completion of the project for the upgrading of over 420 miles of track from old track on timber sleepers to modern continuous welded rail on concrete sleepers.

Iarnród Éireann's fares are 40% lower than average European rail fares

As well as safety benefits, modern track means faster trains and shorter journey times. These benefits of track renewal have now been extended on the rail routes from Dublin to Galway, Sligo, Tralee, Waterford, Westport, Ballina, Ennis and Rosslare.

In 2005, the order of 67 new Intercity carriages dedicated to the Cork/Dublin route, currently under construction in the factories of CAF in Spain, will start to be delivered and enter service.

The rest of the network will shortly have new trains as well with the introduction of the new fleet of 120 railcars for which a contract has been awarded to Mitsui of Japan, for delivery in 2007 and 2008.

Rosslare Europort

Rosslare Europort recorded a slight increase in surplus in 2004, at €2.6 million, up from €2.5 million the preceding year, in what was a difficult trading year for shipping companies. Revenues increased by 5% despite issues such as a labour dispute in Irish Ferries, mechanical problems on Stena services, and the withdrawal by P&O from the Rosslare/Cherbourg route.

Chairman's Statement

Radical strategy to return Freight to profitability

The overall strategy of Iarnród Éireann Freight is to return the business to profitability. This will be achieved by targeting the cost base, developing the profitable businesses, withdrawing from unprofitable businesses, turning around those unprofitable businesses, which can be made profitable, and targeting trainload point-to-point business. Results to date are positive.

A contract to transport over 100,000 tonnes of pulpwood from the West of Ireland on behalf of Coillte, the State Forestry Board, was secured in 2004. It is hoped to increase this business to 250,000 tonnes per annum. Fastrack express parcels business has increased in volumes and revenue, and the freight payroll base has been reduced by over 25% and operating costs have been rationalised. The Freight operating deficit in 2004 was reduced from €14 million in 2003 to €9 million and a surplus is targeted going forward.

Bus Éireann: Profits and commitment to change

Bus Éireann had a very successful year in 2004, recording a surplus of €5.8 million compared to a surplus of €1.5 million for the preceding year. This surplus improvement was achieved in the face of increased competition and worsening traffic congestion and reflects the commitment to change within the company.

The company invested €7.2 million in improving bus stations and other customer services and in upgrading its fleet during the year. Traffic gridlock, however, is estimated to have cost Bus Éireann in excess of €20 million in reduced operational speeds and increased journey times.

New services were introduced, more departures were operated and the performance targets agreed with the Department of Transport were surpassed.

The Bus Éireann results have shown an improvement of in excess of €15 million over the past two years, from a deficit of €9.4 million in 2002 to a surplus of €1.5 million in 2003 to an increased surplus of €5.8 million in 2004

Bus Éireann carried 48 million passengers (excluding Schools Transport) on its nationwide network during 2004, 21 million were carried on provincial city services and 27 million on other services.

There was also a major upgrading in 2004 of the Bus Éireann fleet:

- Bus Éireann spent €14.6 million on upgrading its fleet.
- 39 high specification coaches were provided for long distance services on major inter-urban routes such as Dublin/Galway, Dublin/Limerick and Dublin/Waterford.
- 8 new coaches for Eurolines services to Britain from Dublin and Waterford, and 18 for contract operations on behalf of CIE Tours International.
- 3 new double deck buses were introduced for the Black Ash Park and Ride in Cork city.
- The School Transport fleet was also upgraded, with 68 replacement buses being bought from other operators and 60 buses transferred from the company's scheduled services fleet.

CIÉ Holding Company – a strong performance

The commercial activities carried out by the CIÉ holding company, including CIE Tours, the Property Division and Commuter Advertising Network, all contributed to the Group's positive return during the year under review.

CIE Tours International exceeded its 2003 performance by 57%, making a major contribution to the national tourism effort, by purchasing over 400,000 bed-nights during the year located throughout the whole island of Ireland.

Group Property realised €24 million from surplus property sales including the sale of the old rail freight depot in Cabra for a net €22.5 million.

Commuter Advertising Network (CAN) made a net profit of €5.9 million from outdoor advertising sales during the year and is set to continue maximising profits by developing and creating new media opportunities on company sites and on train and bus advertising.

Chairman's Statement

Service levels and targets

Memoranda of Understanding on Service Levels and Targets for the year were concluded between the Department of Transport and Iarnród Éireann, Bus Átha Cliath and Bus Éireann. The companies have all performed well and, in many cases, surpassed the performance targets set out in these Memoranda. A portion of the State subvention is dependant on achieving the agreed service levels and targets.

Acknowledgements

It is with sadness that I and my colleagues in the CIÉ Group learnt of the sudden death of Board member, Mr. Plev Ellis, on 26th July, 2004. Mr. Ellis was also a serving director on the Iarnród Éireann board. His contribution and advice was of enormous value to us all. He will be greatly missed.

Mr. Paul Kiely was re-appointed to the Board on 2nd March, 2004. Mr. Justin Baily, Mr. John Sorohan and Mr. Norman Wilkinson were also appointed to the Board on 2nd March, 2004. In addition, Mr. Kevin Cronin was appointed to the Board on 21st September, 2004.

Mr. Baily and Mr. Wilkinson retired from the Board on 1st March, 2005. I wish to thank them both for the valued contribution they made to the work of the Board during their year in office.

Ms. Mary Canniffe, Mr. Neil Ormond and Prof. Yvonne Scannell were appointed to the Board on 2nd March, 2005. Mr Paul Kiely and Mr. John Sorohan were re-appointed to the Board on 2nd March, 2005. I myself was re-appointed to the Board on 28th March, 2005.

On behalf of the Board, I would like to express our thanks to the Ministers for Transport during 2004, Mr. Seamus Brennan, T.D. and Mr. Martin Cullen, T.D., for their continued support during the year, as well as to officials of the Department of Transport for their generous assistance to us at all times. In turn we pledge to be equally supportive of Government policy in helping to achieve a better public transport service for all.

Over 45% of all the Bus Átha Cliath fleet are low floor vehicles, with easy access especially for people with disabilities.

I would also like to acknowledge the support of the Cabinet and in particular the Taoiseach and both Ministers for Finance in office during the year. Their support has been crucial to the success of the major investment programmes currently being undertaken under the National Development Plan 2000-2006, which are so vital to the public transport project.

The Board is especially grateful to the European Commission for significant co-funding for many of our major projects under the EU Structural Funds.

Finally, I would like to put on the record my personal thanks and that of the Board to the staff of the CIÉ group of companies for their role in the success of their companies and to acknowledge their sustained efforts in keeping the show on the road for our customers.

John J. Lynch
Chairman

Group Structure

Córas Iompair Éireann is the national statutory authority providing land public transport within the Republic of Ireland. It is wholly owned by the Government of Ireland and reports to the Minister for Transport.

The Group holding company is organised into five subsidiary operating companies, two business units and ancillary service providers. Between them they provide services for:

- Rail passenger travel
- Rail freight haulage
- Train and ground catering
- City, Intercity, rural and school bus travel
- Road freight haulage
- Harbour management
- Event/holiday tours
- Ancillary services:
  Project management; Property; Legal; Insurance/Liability management.

Strategic direction, control and overall co-ordination is provided by the holding company whilst each subsidiary and business unit has a high degree of operating autonomy.

Córas Iompair Éireann

CIE Tours International Inc.
Commuter Advertising (CAN)
CIÉ Group Property
Insurance/Liability Management
Legal Services

Iarnród Éireann

Intercity
Suburban
Long Distance Commuter
Rail Freight
Road Freight
Rosslare Harbour
Network Catering (Dubel Ltd.)

Bus Éireann

Expressway
Rural Services
Provincial City Services
School Bus Services
Commercial Vehicle Testing
Private Hire

Bus Átha Cliath

City Services
Xpresso
Nitelink
Airlink
City Tours
Private Hire

Members of the Board and Group Management

Members of the Board

The names of the persons who were Board members at any time during the year ended 31st December, 2004, or since appointed, are set out here. Except where indicated, they served as Board members for the whole year.

Dr. J.J. Lynch	Executive Chairman (Re-appointed 28th March, 2005)
Mr. J. Baily	(Appointed 2nd March, 2004, Retired 1st March, 2005)
Mr. G. Charles*	
Mr. K. Cronin	(Appointed 21st September, 2004)
Mr. P. Cullen*	
Mr. P. Ellis	(Died 26th July, 2004)
Mr. P. Kiely	(Re-appointed 2nd March, 2004 and 2nd March, 2005)
Ms. A.M. Mannix*	
Mr. B. McCamley*	
Mr. J. Sorohan	(Appointed 2nd March, 2004, Re-appointed 2nd March, 2005)
Ms. M. Walsh	
Mr. N. Wilkinson	(Appointed 2nd March, 2004, Retired 1st March, 2005)
Ms. M. Canniffe	(Appointed 2nd March, 2005)
Mr. N. Ormond	(Appointed 2nd March, 2005)
Prof. Y. Scannell	(Appointed 2nd March, 2005)

*Worker member

Secretary of the Board

Ms. G. Finucane,
Heuston Station,
Dublin 8.
Telephone: + 353 1 703 2008
Facsimile: + 353 1 703 2276

Board Committees at 6th April, 2005

Audit Committee

Mr. P. Kiely, Chairman
Mr. J. Sorohan
2 vacancies

Finance Committee

Mr. P. Kiely, Chairman
Mr. J. Sorohan
Ms. M. Walsh
1 vacancy

Remuneration Committee

Mr. P. Kiely, Chairman
Dr. J.J. Lynch
1 vacancy

Property Committee

Ms. M. Walsh, Chairperson
Mr. G. Charles
Ms. A.M. Mannix
1 vacancy

Group Management

Mr. J. Cullen, Chief Financial Officer
Mr. B. Dowling, Managing Director, CIE Tours International
Mr. B. Lilley, Managing Director, Bus Éireann
Mr. J. Meagher, Managing Director, Iarnród Éireann
Dr. A.R. Westwell (UK), Managing Director, Bus Átha Cliath

Auditors

PricewaterhouseCoopers,
Chartered Accountants and Registered Auditors,
Wilton Place,
Dublin 2.

Solicitor

Mr. M. Carroll,
Bridgewater House,
Islandbridge,
Dublin 8.

Principal Banker

Bank of Ireland,
College Green,
Dublin 2.

Corporate Governance Statement

The Code of Practice for the Governance of State Bodies sets out principles of corporate governance which State bodies are required to adopt. The Córas Iompair Éireann Group supports the principles and provisions of the Code of Practice.

The Board

The Board is comprised of twelve members. The Government appoints the Chairman and seven other non-executive members to the Board. The Minister for Transport appoints four worker members for a four-year term following elections by the staff of the Group.

The Board meets monthly and on other occasions as necessary. It has a formal schedule of matters specifically reserved for its review including the approval of the annual financial statements, budgets, the corporate plan, significant acquisitions and disposals, investments, significant capital expenditure, senior management appointments and major Group policies. The Group has a comprehensive process for reporting management information to the Board, on a monthly basis.

All Board members have access to the advice and services of the Group Secretary.

Board Committees

Committees are established to assist the Board in the discharge of its responsibilities. The committees comprise an Audit Committee (see below), a Finance Committee (see below), a Property Committee and a Remuneration Committee. Their members are listed on page 12.

Audit Committee

The Audit Committee has written terms of reference, and is composed of four non-executive Board members. There are two vacancies at present on this committee. It meets periodically with the Group's senior management, the external auditors and the Head of Internal Audit to review the Group's internal controls, the internal and external audit plans and subsequent findings, the selection of accounting policies, the statutory audit report, financial reporting including the annual audited accounts and other related matters. The Audit Committee is also charged with the responsibility of reviewing the independence and objectivity of the external auditors and reviewing the nature and extent of non-audit work carried out by them to ensure a proper balance between objectivity and cost effectiveness. The external auditors and the Head of Internal Audit have full and unrestricted access to the Audit Committee. The external auditors attend meetings of the Audit Committee and annually meet with the Committee without management present to ensure that there are no outstanding issues of concern.

Finance Committee

The Finance Committee is composed of four Board members and has written terms of reference. There is one vacancy at present on this committee. It meets with the Chief Financial Officer and senior management from the subsidiary companies every month to review the funding of the Group's capital programme, the prioritisation of the subsidiary companies' capital expenditure proposals, annual operating and capital budgets and the Group's treasury, procurement and disposal policies. The committee also reviews the Group's insurance and finance strategies. It is also charged with ensuring that the Group's management information systems enable the effective implementation of the Board's finance strategies.

Internal Financial Controls

The Board has overall responsibility for the Group's systems of internal financial control. These systems can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Statement

The Group's overall control systems include:

- A clearly defined organisational structure with written authority limits, appropriate segregation of duties and reporting mechanisms to higher levels of management, the boards of the subsidiary companies, Board Committees and to the Board. Detailed policies on key areas of financial risk including treasury risk are maintained.
- A comprehensive budgeting and planning system whereby actual performance is compared to the pre-approved budget at the end of each financial period and any significant trends or variances are investigated. These reports are circulated to the Board on a monthly basis for review.
- The establishment of clear guidelines for the approval and control of capital expenditure. These include the preparation of annual capital budgets which are approved by the Board in consultation with the Department of Transport, and detailed feasibility studies and appraisals of individually significant capital projects prior to approval by the appropriate level of authority (including the Department of Transport for larger projects). For major capital projects, regular progress reports to management and the relevant subsidiary board are prepared and all significant capital projects require the completion of a formal close-out paper.
- Within Iarnród Éireann, the New Works Group, which is composed of both Iarnród Éireann directors and senior management, reviews on a monthly basis project proposals, tendering and evaluation processes adopted and progress of major capital projects against project timetables and budgets.

Internal controls are reviewed systematically by Group Internal Audit, which has a Group-wide role. In these reviews, Internal Audit place emphasis on areas of greater risk as identified by their risk analysis framework. The role and responsibilities of Internal Audit are defined by a Board approved charter. The Head of Internal Audit formally reports to the Audit Committee.

The Board through the Audit Committee has reviewed the effectiveness of the systems of internal financial control by:

- A review of the programme of internal audit (prepared following their audit risk assessment process) and consideration of their major findings.
- A consideration of the major findings of any internal investigations.
- A review of the report of the external auditor, which contains details of any material control issues identified as a result of their audit of the financial statements.

An Enterprise Wide Risk Management (EWRM) process is in place to address the implications of major business risks including financial, operational, strategic, hazard and compliance risks. This process should provide the assurance that material risks will be identified and appropriate actions should be undertaken. Documented Risk Registers are in place.

Executive Board Members' Remuneration

Córas Iompair Éireann's policies in relation to remuneration of executive Board members are in accordance with "Arrangements for determining the remuneration of Commercial State Bodies under the aegis of the Department of Public Enterprise", issued in July 1999. The only executive Board member is the Chairman. His remuneration is set within a range determined by the Ministers for Finance and Transport.

Corporate Governance Statement

Other Members' Remuneration

The remuneration of all other Board members in relation to their duties as Board members is determined by the Minister for Transport. They do not receive pensions for their duties as Board members.

Board members appointed under the Worker Participation (State Enterprises) Act, 1977 are also remunerated in accordance with their contracts of employment.

Going Concern

The Board members are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for the preparation of the accounts.

Statement of the Board's Responsibilities

The Transport Act, 1950 and subsequent amendments determine the responsibilities of the members of the Board of Córas Iompair Éireann. This legislation requires the members of the Board to ensure that financial statements are prepared for each financial year which, in accordance with applicable Irish law and accounting standards, give a true and fair view of the state of affairs of the Group and of the surplus or deficit of the Group for that period.

In preparing those financial statements, the members of the Board are required to ensure that:

- suitable accounting policies are selected and consistently applied;
- any judgements or estimates made are reasonable and prudent; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The members of the Board are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Transport Act, 1950, and all Regulations to be construed as one with the Act.

They are also responsible for taking steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The measures taken by the Board to secure compliance with its obligations to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons. The books of account are kept in Heuston Station, Dublin 8.

The responsibilities of the directors of the subsidiaries of the Board are determined by the Transport (Re-organisation of Córas Iompair Éireann) Act, 1986 and applicable company law.

Auditors' Report to the Minister for Transport

As auditors appointed by Córas Iompair Éireann under Section 34 (2) of the Transport Act, 1950, with your consent, we have audited the financial statements on pages 18 to 47, which have been prepared under the historical cost convention and the accounting policies set out on pages 18 to 20.

Respective Responsibilities of the Members of the Board and the Auditors

The responsibilities of the Board for preparing the annual report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 16 in the statement of Board's responsibilities.

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. This report, including the opinion, has been prepared for and only for the Minister for Transport in accordance with Section 34 (2)(a) of the Transport Act, 1950 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 of the state of affairs, results and cash flows of the Group. We state whether we have obtained all the information and explanations we consider necessary for the purpose of our audit and whether the Córas Iompair Éireann balance sheet is in agreement with the books of account. We also report to you our opinion as to whether Córas Iompair Éireann has kept proper books of account.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 members of the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 affairs of Córas Iompair Éireann and of the Group as at 31st December, 2004 and of the surplus and cash flows of the Group for the year then ended.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by Córas Iompair Éireann. Córas Iompair Éireann's balance sheet is in agreement with the books of account.

PricewaterhouseCoopers,
Chartered Accountants and Registered Auditors,

6th April, 2005.

Principal Accounting Policies

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

(A) Basis of Preparation

The financial statements are prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2003. 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 have been prepared under the historical cost convention.

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

(B) Basis of Consolidation

The Group financial statements are a consolidation of the financial statements of Córas Iompair Éireann and its subsidiaries:

Iarnród Éireann - Irish Rail and its subsidiary Dubel Limited

Bus Éireann - Irish Bus

Bus Átha Cliath - Dublin Bus

CIE Tours International Incorporated is treated as a branch of Córas Iompair Éireann for accounting purposes.

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

(C) Revenue

Revenue comprises the gross value of services provided.

(D) 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 Iarnród Éireann – Irish Rail 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 costs 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 passenger vehicles

The historical costs of road passenger vehicles other than school buses are depreciated over their expected useful lives on a reducing percentage basis which reflects the

Principal Accounting Policies

vehicles' usage throughout their lives. The historical costs of school buses are depreciated in equal annual instalments over their expected useful lives.

(iv) Road freight vehicles

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

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

The above classes of assets are depreciated, by equal annual instalments, on the basis of historical costs spread over their expected useful lives.

(vi) Land and buildings

Buildings are depreciated, by equal annual instalments, on the basis of historical costs spread over a fifty year life. The book value of land and buildings which are available for sale and likely to be disposed of in the next twelve months is included in current assets as appropriate.

(E) 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 costs of such assets are included in tangible assets and depreciated over the shorter of the lease term or the estimated useful life of the asset. The capital elements of the outstanding lease obligations are included in creditors. Finance charges are charged to the consolidated profit and loss account over the primary period of the lease.

(ii) Operating leases

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

(F) 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.

(G) 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 costs 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 Board, 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 and 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 consolidated profit and loss account on the same basis as the related assets are depreciated.

(iii) Revenue Grants

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

(iv) Safety Investment Grants

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

Principal Accounting Policies

(H) 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.

Long-term foreign currency borrowings, including that portion payable within one year of the balance sheet date, are translated at the rates of exchange ruling at the balance sheet date (closing rates) with the resulting gains or losses included in the consolidated profit and loss account.

(I) Pensions

The expected cost of providing pensions to employees is charged to the consolidated 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 schemes.

The capital cost of supplementary pensions is provided for and charged to the consolidated profit and loss account in the year that the related employee severance is recognised and is included in the cost of severance.

(J) Railway Infrastructure Costs

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

Consolidated Profit and Loss Account

Year ended 31st December	Notes	2004	2003
		€000	€000
Revenue	1	683,547	661,936
Costs			
Payroll and related costs	3	(517,404)	(492,957)
Materials and services	4	(359,162)	(349,347)
Depreciation	5	(56,375)	(60,753)
Exceptional operating costs	6	(19,174)	(20,099)
Total operating costs		(952,115)	(923,156)
Deficit before profit on disposal of tangible assets, interest and State grants		(268,568)	(261,220)
Profit on disposal of tangible assets	7	25,265	784
Deficit before interest and State grants		(243,303)	(260,436)
Interest receivable		119	120
Interest payable – Operational	8	(1,939)	(3,363)
– Railway infrastructure	8	(2,212)	(3,016)
Gain on foreign currency loans		-	207
Deficit for the year before State grants		(247,335)	(266,488)
State grants	9	267,786	262,476
Surplus/(deficit) for the year		20,451	(4,012)
Accumulated deficit at beginning of the year		(90,219)	(86,207)
Accumulated deficit at end of the year		(69,768)	(90,219)

Movements in reserves are shown in Notes 20 and 21 to the financial statements.

All figures relate to the continuing activities of the Group.

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

On behalf of the Board

Dr. J.J. Lynch Chairman

Mr. P. Kiely Board Member

Consolidated Balance Sheet

As at 31st December	Notes	2004	2003
		€000	€000
Fixed assets			
Tangible assets	11	1,459,124	1,264,533
Financial assets	12	20	20
		1,459,144	1,264,553
Current assets			
Stocks	13	39,678	44,758
Debtors	14	93,669	92,172
Cash at bank and in hand		2,535	58,191
		135,882	195,121
Creditors (amounts falling due within one year)	15	(378,703)	(336,016)
Net current liabilities		(242,821)	(140,895)
Total assets less current liabilities		1,216,323	1,123,658
Creditors (amounts falling due after more than one year)	16	(45,495)	(56,933)
Provisions for liabilities and charges	18	(176,320)	(158,719)
Deferred income	19	(785,899)	(719,848)
		208,609	188,158
Financed by:			
Reserves			
Asset replacement reserve	21	237,310	237,310
Capital reserve		28,556	28,556
Profit and loss account deficit		(69,768)	(90,219)
Non-repayable State advances		12,511	12,511
	20	208,609	188,158

On behalf of the Board

Dr. J.J. Lynch Chairman

Mr. P. Kiely Board Member

Company Balance Sheet

As at 31st December	Notes	2004	2003
		€000	€000
Fixed assets			
Tangible assets	11	341,160	281,280
Financial assets	12	306,074	311,476
		647,234	592,756
Current assets			
Debtors	14	99,736	7,460
Cash at bank and in hand		2,225	53,161
		101,961	60,621
Creditors (amounts falling due within one year)	15	(340,625)	(297,136)
Net current liabilities		(238,664)	(236,515)
Total assets less current liabilities		408,570	356,241
Creditors (amounts falling due after more than one year)	16	(45,495)	(56,933)
Deferred income	19	(163,337)	(128,951)
		199,738	170,357
Financed by:			
Reserves			
Asset replacement reserve		108,643	108,643
Capital reserve		28,556	28,556
Profit and loss account		50,028	20,647
Non-repayable State advances		12,511	12,511
	20	199,738	170,357

On behalf of the Board

Dr. J.J. Lynch Chairman

Mr. P. Kiely Board Member

Consolidated Cash Flow Statement

Year ended 31st December	Notes	2004	2003
		€000	€000
Net cash inflow from operating activities	22(A)	**102,723**	118,738
Return on investments and servicing of finance	22(B)	**(3,953)**	(5,776)
Capital expenditure and financial investment	22(B)	**(160,365)**	20,490
Cash inflow before use of liquid resources and financing		**(61,595)**	133,452
Financing – decrease in debt	22(B)	**(6,401)**	(67,574)
(Decrease)/increase in cash in the year		**(67,996)**	65,878
Reconciliation of net cash flow to movement in net debt *(note 22(C))*			
(Decrease)/increase in cash in the year		**(67,996)**	65,878
Cash movement from decrease in debt and lease financing		**6,401**	67,574
Change in net debt resulting from cash flows		**(61,595)**	133,452
Translation difference		**-**	373
Movement in net debt in the year		**(61,595)**	133,825
Net debt at 1st January		**(88,333)**	(222,158)
Net debt at 31st December		**(149,928)**	(88,333)

Notes to the Financial Statements

1 PROFIT AND LOSS FOR YEAR ENDED 31ST DECEMBER

	CIÉ €000	Iarnród Éireann - Irish Rail €000	Bus Éireann - Irish Bus €000	Bus Átha Cliath - Dublin Bus €000	Total 2004 €000	Total 2003 €000
Revenue						
Railway						
- Suburban rail division		37,554			37,554	37,294
- Mainline rail division		126,119			126,119	121,437
		163,673			163,673	158,731
Road freight		31,896			31,896	32,371
Rosslare Harbour		10,270			10,270	10,080
Catering services		9,642			9,642	12,045
Road passenger services						
- Dublin city				177,553	177,553	172,937
- Provincial cities			22,709		22,709	20,694
- Other services			203,828		203,828	197,991
Tours	50,830				50,830	44,749
Central business activities	13,146				13,146	12,338
Total revenue	63,976	215,481	226,537	177,553	683,547	661,936
Expenditure						
Railway						
- Suburban rail division						
Operational costs		61,894			61,894	62,637
Infrastructure costs		17,787			17,787	29,170
- Mainline rail division						
Operational costs		183,222			183,222	180,273
Infrastructure costs		139,621			139,621	188,515
		402,524			402,524	460,595
Road freight		30,701			30,701	31,241
Rosslare Harbour		7,693			7,693	7,579
Catering services		9,939			9,939	12,722
Road passenger services						
- Dublin city				238,515	238,515	219,765
- Provincial cities			33,189		33,189	30,318
- Other services			211,359		211,359	209,429
Tours	49,826				49,826	44,032
Central business activities	8,923				8,923	7,257
Total expenditure	58,749	450,857	244,548	238,515	992,669	1,022,938

Notes to the Financial Statements

1 PROFIT AND LOSS FOR YEAR ENDED 31ST DECEMBER (continued)

	CIÉ €000	Iarnród Éireann - Irish Rail €000	Bus Éireann - Irish Bus €000	Bus Átha Cliath - Dublin Bus €000	Total 2004 €000	Total 2003 €000
(Deficit)/surplus						
Railway						
- Suburban rail division		(45,433)			(45,433)	(54,513)
- Mainline rail division		(193,418)			(193,418)	(247,351)
		(238,851)			(238,851)	(301,864)
Road freight		1,195			1,195	1,130
Rosslare Harbour		2,577			2,577	2,501
Catering services		(297)			(297)	(677)
Road passenger services						
- Dublin city				(60,962)	(60,962)	(46,828)
- Provincial cities			(10,480)		(10,480)	(9,624)
- Other services			(7,531)		(7,531)	(11,438)
Tours	1,004				1,004	717
Central business activities	4,223				4,223	5,081
Operating surplus/(deficit)	5,227	(235,376)	(18,011)	(60,962)	(309,122)	(361,002)
Gain on foreign currency loans		-	-	-	-	207
Profit /(loss) on disposal of tangible assets *(note 7)*	24,154	132	(212)	1,191	25,265	784
Surplus/(deficit) before State grants	29,381	(235,244)	(18,223)	(59,771)	(283,857)	(360,011)
State grants						
- Operational *(note 9)*	-	79,176	23,999	61,810	164,985	156,593
- Infrastructure *(notes 2 and 9)*	-	150,092	-	-	150,092	197,756
EU grant – infrastructure *(note 2)*	-	8,405	-	-	8,405	21,749
Surplus for the year after State grants	29,381	2,429	5,776	2,039	39,625	16,087
Exceptional operating cost *(note 6)*	-	(19,174)	-	-	(19,174)	(20,099)
Net surplus/(deficit) for the year	29,381	(16,745)	5,776	2,039	20,451	(4,012)

Notes to the Financial Statements

		2004	2003
		€000	€000
2	RAILWAY INFRASTRUCTURE COSTS		
	In compliance with EU Council Directive 91/440 these costs have been computed as follows:		
	Maintenance of railway lines and works	**62,980**	69,119
	Renewal of railway lines and works	**55,696**	113,622
	Operating (signalling) and other expenses	**27,125**	25,008
	Depreciation *(note 11 [f])*	**17,745**	12,902
	Amortisation of capital grants	**(8,350)**	(5,982)
	Total railway infrastructure costs before interest	**155,196**	214,669
	Interest payable *(note 8)*	**2,212**	3,016
	Total railway infrastructure costs before grants	**157,408**	217,685
	State grants, EU and Exchequer funding	**(158,497)**	(219,505)
	Surplus for year	**(1,089)**	(1,820)
	Apportionment of costs (before exceptional costs):		
	Mainline rail division	**139,621**	188,515
	Suburban rail division	**17,787**	29,170
		157,408	217,685

		2004	2003
3	PAYROLL AND RELATED COSTS		
	Staff costs		
	Wages and salaries	**481,274**	467,576
	Social welfare costs	**40,874**	39,263
	Other pension costs	**30,484**	24,411
		552,632	531,250
	Own work capitalised	**(35,782)**	(38,797)
	Net staff costs	**516,850**	492,453
	Board members' remuneration		
	Emoluments		
	- for services as Board members	**135**	146
	- for other services	**419**	358
	Total Board members' remuneration and emoluments	**554**	504
	Total payroll and related costs	**517,404**	492,957

Included in Board members remuneration is €224,234 (2003 - €165,627) paid to Dr. J.J. Lynch, Executive Chairman, being €205,188 (2003 - €146,581) for other services plus €19,046 (2003 - €19,046) for Board member's fees.

Notes to the Financial Statements

3 PAYROLL AND RELATED COSTS (continued)

	Staff Numbers 2004	2003
The average number of persons employed by company was as follows:		
CIÉ	**303**	302
Iarnród Éireann – Irish Rail	**5,590**	5,833
Bus Éireann – Irish Bus	**2,736**	2,721
Bus Átha Cliath – Dublin Bus	**3,408**	3,367
	12,037	12,223

	2004 €000	2003 €000

4 MATERIALS AND SERVICES

	2004 €000	2003 €000
Included in Materials and Services are:		
Auditors' remuneration	**199**	191
Operating lease rentals	**7,573**	8,186
Revenue grants *(note 19)*	**(2,756)**	(1,360)

5 DEPRECIATION

	2004 €000	2003 €000
Depreciation *(note 11)*	**110,652**	103,317
Amortisation of capital grants	**(52,550)**	(41,723)
Exceptional operating cost *(note 6)*	**(1,727)**	(841)
	56,375	60,753

Above figures for 2004 include €2.478 million of depreciation and €0.751 million of amortization of capital grants treated as exceptional operating cost.

6 EXCEPTIONAL OPERATING COSTS

	2004 €000	2003 €000
Business restructuring	**(17,447)**	(19,258)
Depreciation charge	**(1,727)**	(841)
	(19,174)	(20,099)

As part of the 2004 Financial Plan Iarnród Éireann Introduced a voluntary severance and early retirement programme. The estimated cost in 2004, including severance payments and other costs associated with the programme is €19.2 million.

7 PROFIT ON DISPOSAL OF TANGIBLE ASSETS

	2004 €000	2003 €000
Net proceeds on sale of surplus land and buildings	**24,154**	469
Profit on disposal of rolling stock, vehicles, plant and machinery	**1,111**	315
	25,265	784

Notes to the Financial Statements

		2004 €000	2003 €000
8	INTEREST PAYABLE		
	On loans and leases repayable wholly within five years:		
	Loans	**1,030**	2,997
	Leases	**-**	62
	On loans and leases not wholly repayable within five years:		
	Loans	**-**	-
	Leases	**3,121**	3,320
		4,151	6,379
	Interest apportioned:		
	Group operational costs	**1,939**	3,363
	Railway infrastructure costs *(note 2)*	**2,212**	3,016
		4,151	6,379

9 STATE GRANTS

The grants payable to Córas Iompair Éireann are in accordance with the relevant EU Regulations governing State aid to transport undertakings.
Particulars of the State grants of €267.786 million received in 2004 - €257.229 million under Sub-Head C1 of Vote 32 of Dáil Éireann and €10.557 million under Railway Safety Investment Programme are given in the following table.

State grants relating to 2004 activities	**€000**	**Total €000**
Iarnród Éireann – Irish Rail		
- Subvention		**171,420**
- Railway Safety Investment Programme		**10,557**
Total rail		**181,977**
Bus Átha Cliath – Dublin Bus		**61,810**
Bus Éireann – Irish Bus		**23,999**
		267,786
Add State grant for National Development Plan (NDP)		**146,441**
Other Exchequer grants		**2,496**
Total State funding		**416,723**
The total State funding was applied as follows:		
Consolidated profit and loss account		**267,786**
Less: infrastructure		**(102,801)**
Subvention and railway safety grants – operational *(note 1)*		**164,985**
Infrastructure in subvention and railway safety grants	**102,801**	
NDP – credit against renewals of railway lines and works	**47,291**	
Infrastructure subvention *(note 1)*		**150,092**
Deferred income – capital grants		**98,890**
Other Exchequer grants		**2,756**
Total		**416,723**

Notes to the Financial Statements

10 HOLDING COMPANY NET SURPLUS FOR YEAR

A summary of the financial results of the holding company and its subsidiaries is shown in note 1.
The holding company's surplus for the year, after profit on disposal of tangible assets, amounted to €29,381,000.

11 TANGIBLE FIXED ASSETS

	1st Jan. €000	Reclass-ifications €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Group					
Cost					
Railway lines and works	817,426	-	84,080	-	901,506
Funding received for railway lines and works	(588,912)	-	(55,696)	-	(644,608)
Railway rolling stock	651,058	-	100,314	(759)	750,613
Road passenger vehicles	435,209	-	27,930	(27,476)	435,663
Road freight vehicles	7,035	-	-	(207)	6,828
Land and buildings	284,086	-	67,855	-	351,941
Plant and machinery	451,851	199	72,412	(5,928)	518,534
Docks, harbours and wharves	43,115		822	-	43,937
Capital work in progress	199	(199)	8,170	-	8,170
Total 2004	2,101,067	-	305,887	(34,370)	2,372,584

	1st Jan. €000	Reclass-ifications €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Depreciation					
Railway lines and works	762,762	-	58,904	-	821,666
Funding received for railway lines and works	(588,912)	-	(55,696)	-	(644,608)
Railway rolling stock	212,509	-	33,864	(759)	245,614
Road passenger vehicles	242,575	-	37,312	(26,852)	253,035
Road freight vehicles	6,178	-	288	(207)	6,259
Land and buildings	12,856	-	5,370	-	18,226
Plant and machinery	178,164	-	29,737	(5,908)	201,993
Docks, harbours and wharves	10,402	-	873	-	11,275
Total 2004	836,534	-	110,652	(33,726)	913,460

Notes to the Financial Statements

11 TANGIBLE FIXED ASSETS (continued)

	31st Dec 2004 €000	31st Dec 2003 €000
Group		
Net book amounts		
Railway lines and works	**79,840**	54,664
Railway rolling stock	**504,999**	438,549
Road passenger vehicles	**182,628**	192,634
Road freight vehicles	**569**	857
Land and buildings	**333,715**	271,230
Plant and machinery	**316,541**	273,687
Docks, harbours and wharves	**32,662**	32,713
Capital work in progress	**8,170**	199
Total	**1,459,124**	1,264,533

	1st Jan. €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Company				
Cost				
Land and buildings	284,086	67,147	-	351,233
Plant and machinery	27,926	1,348	(50)	29,224
Total 2004	312,012	68,495	(50)	380,457

	1st Jan. €000	Charge for €000	Scrappings and Disposals €000	31st Dec. €000
Depreciation				
Land and buildings	12,856	5,370	-	18,226
Plant and machinery	17,876	3,230	(35)	21,071
Total 2004	30,732	8,600	(35)	39,297

	31st Dec 2004 €000	31st Dec 2003 €000
Net book amounts		
Land and buildings	**333,007**	271,230
Plant and machinery	**8,153**	10,050
Total	**341,160**	281,280

Notes to the Financial Statements

11 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 additions to the railway network.

	2004	2003
	€000	€000
Renewals expenditure and related grants were as follows:		
Renewals expenditure	**78,670**	116,016
State grants	**47,291**	91,873
EU grants	**8,405**	21,749
	55,696	113,622

(b) Road passenger vehicles at a cost of €13,968,000 (2003 - €21,782,000) were fully depreciated but still in use at the balance sheet date.

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

	Lives (Years)
Buildings	50
Railway lines and works	40
Railway rolling stock	15 to 20
Road passenger vehicles	8 to 14
Road freight vehicles	6 to 10
Plant and machinery	3 to 35
Docks, harbours and wharves	50

(d) Included in tangible fixed assets are amounts, as stated below, in respect of rail locomotives which are held under finance leases, whereby the company has substantially all the risks and rewards associated with the ownership of an asset, other than the legal title:

	2004	2003
	€000	€000
Cost	**88,270**	87,924
Accumulated depreciation	**(37,138)**	(32,180)
Net book value at 31st December	**51,132**	55,744
Depreciation for year	**(4,958)**	(4,944)

Notes to the Financial Statements

	2004 €000	2003 €000
11 TANGIBLE FIXED ASSETS (continued)		
(e) Included in the additions above are payments on account in respect of assets as set out below which were not yet in service.		
Railway rolling stock	**158,147**	113,327
Road passenger vehicles	**16**	55
	158,163	113,382
(f) Tangible fixed assets include railway infrastructure assets as follows:		
Cost	**606,970**	523,980
Accumulated depreciation	**(286,792)**	(269,047)
Net book value at 31st December	**320,178**	254,933
Depreciation for year *(note 2)*	**(17,745)**	(12,902)

12 FINANCIAL ASSETS

	Trade investments					
	Listed shares		Unlisted shares		Total	
Group	**2004 €000**	2003 €000	**2004 €000**	2003 €000	**2004 €000**	2003 €000
Cost or valuation	**97**	97	**13**	13	**110**	110
Provision for permanent diminution in value	**(77)**	(77)	**(13)**	(13)	**(90)**	(90)
Net book amounts At 31st December	**20**	20	**-**	-	**20**	20

	Subsidiary companies			Trade investments		
Company	**Unlisted Shares €000**	**Loans €000**	**Finance Leases €000**	**Listed Shares €000**	**Unlisted Shares €000**	**Total €000**
Cost or valuation						
At 1st January, 2004	**90,151**	**167,066**	**54,259**	**34**	**13**	**311,523**
Less: Reduction in						
- finance leases			**(4,902)**			**(4,902)**
- Loan		**(500)**				**(500)**
At 31st December, 2004	**90,151**	**166,566**	**49,357**	**34**	**13**	**306,121**
Provision for permanent diminution in value						
At 31st December, 2004	**-**			**(34)**	**(13)**	**(47)**
Net book amounts						
At 31st December, 2004	**90,151**	**166,566**	**49,357**	**-**	**-**	**306,074**

Loans to the subsidiary companies represents the net assets assigned to Iarnród Éireann – Irish Rail by Córas Iompair Éireann less share capital issued on its establishment following the re-organisation of Córas Iompair Éireann in 1987 and the term loan for school buses for Bus Éireann – Irish Bus.

Notes to the Financial Statements

		2004	2003
		€000	€000
13	STOCKS		
	Group		
	Maintenance materials and spare parts	**22,220**	20,993
	Infrastructure stocks	**11,319**	17,511
	Fuel, lubricants and other sundry stocks	**6,139**	6,254
		39,678	44,758

These amounts include parts and components necessarily held to meet long-term operational requirements.

		2004	2003
14	DEBTORS		
	Group		
	Trade debtors	**17,498**	17,236
	Department of Education and Science	**5,200**	6,071
	LRT project	**278**	501
	EU grants receivable	**51,401**	50,273
	Other debtors and accrued income	**19,292**	18,091
		93,669	92,172
	Company		
	Trade debtors	**1,270**	827
	NDP Iarnród Éireann investment projects funded by CIÉ	**94,667**	-
	LRT project	**278**	501
	Other debtors and accrued income	**3,521**	6,132
		99,736	7,460

Notes to the Financial Statements

		2004 €000	2003 €000
15	CREDITORS (amounts falling due within one year)		
	Group		
	Bank overdraft	**24,758**	12,418
	Bank loans *(note 17)*	**83,436**	78,460
	Finance lease obligations *(note 26)*	**4,262**	4,528
	Trade creditors	**79,531**	72,377
	Income tax deducted under PAYE	**8,624**	6,051
	Pay related social insurance	**7,928**	6,164
	Value added tax and other taxes	**3,183**	6,863
	Other creditors	**19,991**	14,864
	Restructuring provisions *(note 18)*	**24,968**	22,948
	Deferred income *(note 19)*	**64,602**	53,620
	Accruals	**34,447**	36,032
	Third party and employer's liability claims *(note 18)*	**22,973**	21,691
		378,703	336,016
	Creditors for taxation and social welfare included above	**19,735**	19,078
	Company		
	Bank overdraft	**436**	2,195
	Bank loans *(note 17)*	**83,436**	78,460
	Finance lease obligations *(note 26)*	**4,262**	4,528
	Trade creditors	**2,578**	2,879
	Amounts owed to subsidiary companies	**212,792**	181,107
	Income tax deducted under PAYE	**315**	(248)
	Pay related social insurance	**231**	(62)
	Value added tax and other taxes	**2,065**	1,446
	Other creditors	**13,600**	7,859
	Restructuring provisions	**672**	991
	Deferred income *(note 19)*	**3,333**	2,594
	Accruals	**16,905**	15,387
		340,625	297,136
	Creditors for taxation and social welfare included above	**2,611**	1,136
16	CREDITORS (amounts falling due after more than one year)		
	Group and Company		
	Bank loans *(note 17)*	**1,000**	7,849
	Finance lease obligations *(note 26)*	**39,007**	43,269
	Irrecoverable value added tax on finance leases	**5,488**	5,815
		45,495	56,933

Notes to the Financial Statements

17 BANK LOANS

	2004 €000	2003 €000
Group and Company		
These loans are repayable as follows:		
Within one year *(note 15)*	**83,436**	78,460
Between one and two years	**500**	6,849
Between two and five years	**500**	1,000
	1,000	7,849
Total	**84,436**	86,309

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 €76,588,000 (2003 - €76,689,000) relating to Irish commercial paper which are backed by committed medium-term facilities which effectively extends the maturity of these instruments.

The Minister for Finance has guaranteed €82,936,000 of the above loans.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring Provisions €000	Third Party and Employer's Liability Claims €000	TOTAL €000
Group			
Balance at 1st January, 2004	22,595	180,410	203,005
Utilised during year	(14,841)	(18,191)	(33,032)
Transfer from profit and loss account	17,214	37,074	54,288
Balance carried forward 31st December, 2004	24,968	199,293	224,261
Apportioned:			
Current liabilities *(note 15)*	24,968	22,973	47,941
Amounts falling due after more than one year	-	176,320	176,320
	24,968	199,293	224,261
Company			
Balance at 1st January, 2004	991	-	991
Utilised during year	(319)	-	(319)
Transfer from profit and loss account	-	-	-
Balance carried forward 31st December, 2004	672	-	672
Current liabilities *(note 15)*	(672)	-	(672)

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

Notes to the Financial Statements

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) Bus Átha Cliath – Dublin Bus

Third Party Liability in excess of €2,000,000 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.

(iii) Bus Éireann – Irish Bus

Third Party Liability in excess of

(a) €1,680,000 for school buses and

(b) €2,000,000 for other road transport 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.

(iv) 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.

(v) In addition, each of the subsidiary companies within the Group has aggregate cover in the twelve month period, April 2004 to March 2005, for rail and road transport third party liabilities in excess of a self insured retention of:

Iarnród Éireann – Irish Rail	€11,000,000
Bus Átha Cliath – Dublin Bus	€15,000,000
Bus Éireann – Irish Bus	€11,000,000

subject to an overall Group self insured retention of €27,000,000.

(vi) Group Combined Liability Insurance overall indemnity is €200,000,000 for the twelve month period, April 2004 to March 2005, for rail and road transport Third Party and Other Risks liabilities.

(vii) Fire and Special Perils, including storm damage, to the Group's property in excess of €1,000,000 and an indemnity of €200,000,000 on any one loss or series of losses.

(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

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 Group. The estimated cost of claims includes expenses to be incurred externally in managing claims but excludes the internal overhead of claims management fees. The Group 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 Group 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 Group 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 Group, 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 where such recoveries can be reasonably estimated. 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 Group's brokers of any re-insurers in run off.

Notes to the Financial Statements

19 DEFERRED INCOME

Group	1st Jan 2004 €000	Received and Receivable €000	Profit and Loss A/c €000	31st Dec. 2004 €000
Capital grants				
Railway lines and works	22,681	4,325	(1,230)	25,776
Railway rolling stock	307,651	37,791	(13,464)	331,978
Plant and machinery	168,503	49,527	(11,898)	206,132
Docks, harbours and wharves	14,857	-	(284)	14,573
Land and buildings	129,507	37,940	(2,444)	165,003
Road passenger vehicles	89,666	-	(15,331)	74,335
	732,865	129,583	(44,651)	817,797
State grant for Railway Safety Investment Programme	39,313	-	(7,862)	31,451
Other deferred income	1,290	-	(37)	1,253
Revenue grants	-	2,756	(2,756)	-
Total	773,468	132,339	(55,306)	850,501

	2004 €000
Apportioned:	
Deferred income – amounts falling due within one year	64,602
Deferred income – amounts falling due after one year	785,899
	850,501

Company	1st Jan 2004 €000	Received and Receivable €000	Profit and Loss A/c €000	31st Dec. 2004 €000
European Union grant				
Capital grant				
Land and buildings	129,507	37,701	(2,444)	164,764
NDP infrastructure (I.T.) grant	2,008	381	(511)	1,878
Other deferred income	30	-	(2)	28
Total	131,545	38,082	(2,957)	166,670

	2004 €000
Apportioned:	
Deferred income – amounts falling due within one year	3,333
Deferred income – amounts falling due after one year	163,337
	166,670

Notes to the Financial Statements

20 RECONCILIATION OF MOVEMENTS IN RESERVES

	2004 €000	2003 €000
Group		
Surplus/(deficit) for the year after State grants	**20,451**	(4,012)
Opening reserves	**188,158**	192,170
Closing reserves	**208,609**	188,158
Company		
Surplus for the year	**29,381**	6,474
Opening reserves	**170,357**	163,883
Closing reserves	**199,738**	170,357

21 ASSET REPLACEMENT RESERVE

	Railway Rolling Stock €000	Road Passenger Vehicles €000	Total €000
Group			
Balance at 31st December, 2004 and 2003	**135,806**	**101,504**	**237,310**

Notes to the Financial Statements

22 CASH FLOW STATEMENT

Year ended 31st December

(A) Reconciliation of operating deficit to operating cash flows

	2004 €000	2003 €000
Operating deficit before State grants	(268,568)	(261,220)
State grants	266,886	260,895
	(1,682)	(325)
Depreciation	110,652	103,317
Amortisation of capital grants	(52,548)	(41,723)
Decrease in stocks	5,080	4,216
Decrease in debtors for EU revenue grants	8,848	15,371
(Increase)/decrease in debtors	(368)	6,261
Increase in creditors and provisions	32,741	31,621
Net cash inflow from operating activities	102,723	118,738

(B) Analysis of cash flows for headings netted in the cash flow statement

	2004 €000	2003 €000
Returns on investments and servicing of finance		
Interest received	123	117
Interest paid	(1,844)	(4,092)
Interest element of finance lease rental payments	(3,132)	(3,382)
State grant – DART interest	900	1,581
Net cash outflow for returns on investments and servicing of finance	(3,953)	(5,776)
Capital expenditure and financial investment		
Purchase of tangible assets	(367,405)	(400,685)
Disposal of tangible assets	31,742	25,806
State and EU capital grants	175,298	395,369
Net cash (outflow)/inflow for capital expenditure and financial investment	(160,365)	20,490
Financing		
Repayment of debt due within one year	(78,461)	(139,459)
New loans	76,588	76,689
Capital element of finance lease rental payments	(4,528)	(4,804)
Net cash outflow from financing	(6,401)	(67,574)

(C) Analysis of net debt

	At 1st Jan. 2004 €000	Cash Flow €000	At 31st Dec. 2004 €000
Cash at bank and in hand	58,191	(55,656)	2,535
Bank overdrafts	(12,418)	(12,340)	(24,758)
		(67,996)	
Debt due after one year	(7,849)	6,849	(1,000)
Debt due within one year	(78,460)	(4,976)	(83,436)
Finance leases	(47,797)	4,528	(43,269)
		6,401	
Total	(88,333)	(61,595)	(149,928)

Notes to the Financial Statements

23 PENSIONS

The majority of the Group's employees participate in the defined benefit pension schemes based on final pensionable pay. Contributions by the Board, its subsidiaries and the employees are invested in trustee administered funds.

Contributions to the schemes are charged to the consolidated 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.

An actuarial review was carried out as at 31st December, 2002. The market value of the assets of the schemes at that date was €1,094,800,000 and this exceeded 100% of the benefits which had accrued to members based on service to and pensionable pay at the review date. After allowing for future pay and pension increases the level of funding was 100% in respect of the Regular Wages Staff Scheme and 90% in respect of the Superannuation Scheme 1951.

The principal assumption in this review was that investment returns would exceed the rate of increase in pensionable remuneration and of pensions in payment by 2.5% per annum. Actuarial reports are available to scheme members but are not provided for public inspection.

The pensions cost for 2004 was €30,494,000. (2003 - €24,419,000).

FRS 17 Pension disclosures

The additional disclosures required by the transitional arrangements of FRS 17 in relation to the defined benefit plans of the Group are set out below:

Financial Assumptions

Major assumptions:

Date	**31st Dec. 2004**	31st Dec. 2003
	% p.a.	% p.a.
Discount rate	**4.50**	5.20
Inflation	**2.25**	2.25
Pension increases	**3.50**	3.75
Salary increases	**3.50**	3.75

SCHEME ASSETS

The expected long term rate of return of the assets of the defined benefit plans were:

	Long-term rate of return expected at 31st Dec. 2004	**Value at 31st Dec. 2004**	Long-term rate of return expected at 31st Dec. 2003	Value at 31st Dec. 2003
	% p.a.	**€ million**	% p.a.	€ million
Equities	**7.26**	**766**	7.50	708
Property	**6.26**	**130**	6.50	121
Bonds	**4.26**	**271**	4.50	250
Cash	**2.00**	**20**	2.00	16
Total market value of assets		**1,187**		1,095

Notes to the Financial Statements

23 PENSIONS (continued)

The following amounts at 31st December, 2004 and 31st December, 2003 were measured in accordance with the requirements of FRS 17.

	2004	2003
	€000	€000
Total market value of assets	**1,187,200**	1,094,800
Present value of scheme liabilities	**(1,474,200)**	(1,286,700)
Deficit in scheme	**(287,000)**	(191,900)
Related deferred tax	**-**	-
Net pension liability at 31st December	**(287,000)**	(191,900)

If the above amounts had been recognised in the financial statements, the net assets and profit and loss reserve at 31st December, 2004 and 2003 would be as follows:

	2004	2003
	€ million	€ million
Net assets excluding pension asset	**208.61**	188.16
Pension liability	**(287.00)**	(191.90)
Net liability including pension liability	**(78.39)**	(3.74)
Profit and loss reserve excluding pension asset	**(69.77)**	(90.22)
Pension reserve	**(287.00)**	(191.90)
Profit and loss reserve including pension liability	**(356.77)**	(282.12)

Notes to the Financial Statements

	2004 €000	2003 €000

23 PENSIONS (continued)

The following amounts would have been recognised in the performance statements for the years ended 31st December, under the requirements of FRS 17.

	2004 €000	2003 €000
Operating profit		
Current service cost	**29,200**	30,000
Past service cost	**2,100**	2,400
Total operating charge	**31,300**	32,400
Other finance income		
Expected rate of return on pension scheme assets	**71,900**	63,700
Interest on pension scheme liabilities	**(69,200)**	(66,400)
	2,700	(2,700)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)	2004 €000	2003 €000
Actual return less expected return on pension scheme assets	**30,700**	56,600
Experience gains and losses arising on the scheme liabilities	**(20,700)**	(47,900)
Changes in assumptions underlying the present value of the scheme liabilities	**(104,100)**	31,100
Actuarial (loss)/gain recognised in STRGL	**(94,100)**	39,800

Analysis of movement in deficit during the year	2004 €000	2003 €000
Deficit in scheme at beginning of the year	**(191,900)**	(220,400)
Current service cost	**(29,200)**	(30,000)
Employer contributions	**27,600**	23,800
Past service costs	**(2,100)**	(2,400)
Other finance income	**2,700**	(2,700)
Actuarial (loss)/gain	**(94,100)**	39,800
Deficit in scheme at end of year	**(287,000)**	(191,900)

Experience of gains and losses for the year ended 31st December	**2004**	2003	2002
Difference between expected and actual return on scheme assets:			
■ Amount (€000)	**30,700**	56,600	(328,300)
■ Percentage of scheme assets	**2.6%**	5.2%	(33.3%)
Experience losses on scheme liabilities:			
■ Amount (€000)	**(20,700)**	(47,900)	(49,200)
■ Percentage of the present value of the scheme liabilities	**(1.4%)**	(3.7%)	(4.1%)
Total amount recognised in STRGL:			
■ Amount (€000)	**(94,100)**	39,800	(300,800)
■ Percentage of the present value of the scheme liabilities	**6.4%**	3.1%	(24.9%)

Notes to the Financial Statements

		2004 €000	2003 €000
24	CAPITAL COMMITMENTS		
	Contracted for	**427,403**	215,637
	Authorised by Board but not contracted for	**237,367**	217,411
		664,770	433,048

Capital grants totalling €538.8 million have been approved in respect of the above expenditure (2003 - €271.7 million).

25 CONTINGENT LIABILITIES

Pending litigation

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

Finance Leases

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

Letters of credit

Under lease agreements relating to railway rolling stock the Board has certain obligations to the lessor which could arise in the event of early termination of the agreements. These obligations are covered by letters of credit which are indemnified by the Board. No liability is expected to arise in respect of this indemnity.

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 late 2005.

The Group is confident it is compliant with EU procedures but until the final report is available there exists a possibility that some elements of expenditure claimed to date may be deemed ineligible and under these circumstances some grants received to date could become repayable.

Notes to the Financial Statements

26 LEASE OBLIGATIONS

	2004 €000	2003 €000
(A) Finance leases		
Net obligations under finance leases fall due as follows:		
Within one year *(note 15)*	**4,262**	4,528
Between one and five years	**18,474**	18,554
After five years	**20,533**	24,715
	39,007	43,269
Total	**43,269**	47,797

The Minister for Finance has fully guaranteed the above finance leases.

(B) Operating leases

Commitments under non-cancellable operating leases payable in the coming year expire as follows:

	On other than Land and Buildings €000
Within one year	**2,072**
Between one and five years	**3,009**
	5,081

27 RELATED PARTY TRANSACTIONS

(A) The ownership of the company

CIÉ is a statutory body set up under the Transport Act, 1950.

The members of the Board are appointed by the Government and the worker directors, following election, by the Minister for Transport.

(B) Provision of services to entities owned by the Irish Government

The Group provides rail and road transport services in the ordinary course of its business to Government departments and to entities controlled by the Irish Government, the principal of these being the Department of Education and Science and the Department of Social and Family Affairs, Coillte, Aer Lingus and An Post. Revenue from these services amounted to €151.7 million in 2004 and amounts due from these entities to the Group at 31st December, 2004 for these services totalled €9.2 million.

(C) Purchase of services from entities owned by the Irish Government

In the ordinary course of its business the Group purchases services from entities controlled by the Irish Government, the principal of these being Aer Lingus,the ESB and Great Southern Hotels. Expenditure on these services amounted to €8.5 million in 2004 and amounts due to these entities by the Group at 31st December, 2004 for these services totalled €0.3 million.

Notes to the Financial Statements

28 GROUP MEMBERSHIP

Name	**Principal activity**
Holding Company:	
Córas Iompair Éireann	Public transport services
Subsidiary Companies (all wholly owned)	
Iarnród Éireann – Irish Rail	Public rail (passenger and freight) and road freight services
Bus Éireann – Irish Bus	Public bus passenger services
Bus Átha Cliath – Dublin Bus	Public bus passenger services
CIE Tours International Incorporated	Tours
Dubel Limited	Catering services

Iarnród Éireann – Irish Rail, Bus Éireann – Irish Bus and Bus Átha Cliath – Dublin Bus are incorporated and operate principally in the Republic of Ireland. These three companies are incorporated under the provisions of the Companies Acts, 1963 to 2003, as wholly owned subsidiaries of Córas Iompair Éireann in accordance with Section 6 of the Transport (Re-organisation of Córas Iompair Éireann) Act 1986. All of the Group's interests in the subsidiary companies consist of ordinary share capital.

CIE Tours International is incorporated in New York and operates in North America.

Dubel Limited is incorporated in Northern Ireland where it provides catering services for Northern Ireland Railways including their cross-border trains.

The registered offices of the subsidiary companies are as follows:

Iarnród Éireann – Irish Rail	Connolly Station, Dublin 1.
Bus Éireann – Irish Bus	Broadstone, Dublin 7.
Bus Átha Cliath – Dublin Bus	59, Upper O'Connell Street, Dublin 1.
CIE Tours International Incorporated	10 Park Place, Suite 510, P.O. Box 1965, Morristown NJ 07962-1965
Dubel Limited	Central Station, East Bridge Street, Belfast.

29 APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 6th April, 2005.

Operations Review

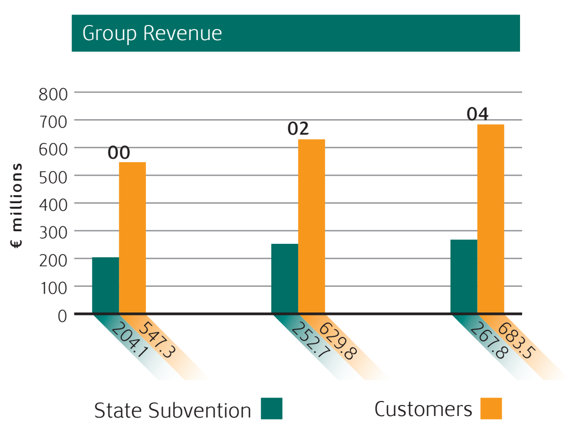
Group Results

The overall result for CIÉ Group operations for 2004 was a surplus of €20.5 million as compared to a deficit of €4 million in 2003:

	2004 € millions	2003 € millions
Revenue	**683.5**	661.9
State grants	**267.8**	262.5
Total	**951.3**	924.4
Payroll related costs	**517.4**	493.0
Other operating costs	**434.7**	430.2
Financial costs	**4.0**	6.2
Profit on disposal of tangible assets	**(25.3)**	(0.8)
Gain on foreign currency	**-**	(0.2)
Total	**930.8**	928.4
Surplus/(deficit)	**20.5**	(4.0)

Revenue

Customer revenue increased by €21.6 million, with Bus Éireann showing the biggest increase at €7.9 million followed by Bus Átha Cliath at €4.6 million, Iarnród Éireann €2.3 million and the holding company an increase of €6.8 million. The increase in revenue arises from increased service levels being provided by the operating companies and price increases.



State Grants

The State grants payable for the provision of public transport services increased to €267.8 million, an increase of €5.3 million. These grants include €10.6 million for the Railway Safety Investment Programme (2003 - €17.5 million).

In addition, the Group received Exchequer funding of €146.4 million under the National Development Plan and also €2.5 million in other revenue support grants which were credited to the consolidated profit and loss account.

The three operating companies, Iarnród Éireann, Bus Éireann and Bus Átha Cliath have included in the notes to their financial statements a note analysing their total revenue and expenditure over social and commercial activities in line with the principles of EU Commission Directive 2000/52/EC.

Other Operating Costs

Payroll costs increased by €24.4 million due mainly to pay awards under the Programme for Sustaining Progress and increased pension costs.

Other operating costs €434.7 million include €19.2 million for exceptional operating costs in Iarnród Éireann

Group Companies

The detailed operations reviews for Iarnród Éireann, Bus Átha Cliath and Bus Éireann are contained in each company's separate Annual Report included in this CD with the CIÉ Group Annual Report.

Operations Review

CIÉ Group Services

CIE Tours International

CIE Tours International continued its profitable performances of recent years and the results from the 2004 tourism season were the most successful since the pre September 11th period in 2000. CIE Tours International grew gross revenue earnings to €55.9 million in 2004, a 14% increase on the previous year.

As there were no major international incidents in 2004 a greater measure of confidence in international travel existed worldwide. This was particularly helpful in gaining business out of the USA. The significant movement in the value of the US dollar depressed euro revenue values but CIE Tours successfully managed its significant foreign exchange exposures.

The growth in revenue was achieved by aggressive advertising, promotion and brand building particularly in the North American market, where Ireland is perceived as a safe destination.

CIE Tours continuing ability to sell its products in the market place was recognised by the tourism industry, and as a result it won major awards in 2004, namely, 'The Icons of Scotland' for best coach tour operator in Scotland, and the 'Best Coach Tour Company' as voted by the Irish Travel Agents Association.

CIE Tours core business of coach touring in Ireland was particularly successful where passenger numbers increased by 28% over those for 2003. Good levels of profitability were achieved through the efficient management of coach departures and loadings.

In achieving its success CIE Tours purchased over 400,000 bed-nights in 2004. These bed-nights were spread around the whole island of Ireland, bringing much needed business to rural areas.

CIE Tours – voted "Best Coach Tour Company" by the Irish Travel Agents Association

In common with other Irish tourism providers CIE Tours in 2004 experienced price resistance from most European destinations where customers reacted to perceived high Irish cost levels. As a result, CIE Tours decided to rationalise its operations in Europe and achieved cost reductions during the year.

Group Property

CIÉ Property Division had an excellent year. The sale of the Cabra site realised €22.5 million.

Rental income increased by 19.6% to €13.6 million in 2004. Significant items contributing to this result were an exceptional wayleave fee and additional payments from ESAT BT of €1.16 million following agreement on further payments due in respect of fibre optic cable routes.

The division is presently working on major projects in Dublin (Spencer Dock and Barrow Street); Cork (Kent Station), Eyre Square in Galway and Portlaoise on behalf of the subsidiary companies.

The Property Division continues to provide professional advice to the various infrastructural projects of Iarnród Éireann, e.g. DART extension, level crossing closures and Kildare line upgrade etc. In particular, a rolling programme of disposals of surplus lands acquired for the Level Crossings Project has also commenced.

Operations Review

Commuter Advertising Network (CAN)

The continuous redevelopment of bus and rail infrastructure and in particular the DART upgrade (suburban enhancement) project resulted in CAN temporarily losing valuable and strategic advertising sites. This situation is expected to continue during 2005.

In order to grow the business and compensate for lost advertising revenues, CAN is actively involved in developing and creating new media opportunities on both fixed and mobile plant. Currently in progress is the conversion of single large advertising displays to “Trivision” displays, developing new formats on northern and western rail commuter corridors and increasing the availability of city bus advertising frames.

CAN recorded a net profit of €5.9 million for the year 2004 and is set to continue maximising profits for CIÉ and its operating companies with minimum impact on services.

Corporate Issues

Employment

The number of people employed by the CIÉ Group at the end of 2004 was 11,972 a decrease of 25 as compared with 2003.

Staff Participation

CIÉ’s main asset continues to be its staff. It is Group policy to utilise this asset to the fullest extent by progressively developing a teamwork and participative culture throughout the Group. Staff are encouraged to participate in the running of the Group through active involvement in project teams, working parties and customer focussed service improvement initiatives. There is provision for four worker directors on the CIÉ Board.

Equal Opportunities

The Group continues to keep under review opportunities for enhancing equality in the workplace for all groups covered by Equality legislation. The range of Work Life Balance initiatives available to staff in the Group are kept under ongoing review. The Group participates with a variety of external organisations in developing its practices and procedures e.g. by being a member of the Diversity in the Workplace Working Group in IBEC. It also has regular consultation with representatives from organisations for the mobility-impaired to establish priorities for investments in facilities for such groups.

Safety, Health and Welfare

The safety of customers and staff is a core value within the CIÉ Group. During 2004 the Safety Advisory Group reviewed the safety performance of each operating company against formal annual safety plans. A number of safety exercises were conducted by the companies to measure the effectiveness of their response in the event of an accident. This review was prompted by the Wellington Quay accident in Dublin in February 2004.

The Safety Advisory Group continues to actively support the safety programmes of each company and encourages the widest possible involvement in safety promotion and accident prevention.

Payment Practices

CIÉ acknowledges its responsibility for ensuring compliance, in all material respects, with the provisions of the EC (Late Payment) Regulation 2002. The payment policy throughout the Group in 2004 was to comply with the requirements of the Regulation.

Procurement Policy

The CIÉ Group Procurement Policy is in place to ensure compliance with the EU Public Procurement and Utilities Directives, as well as Board and Government policies. Substantially all procurements over the qualifying thresholds were put to open tender and inserted in the EU Journal where appropriate.