Córas Iompair Éireann

Annual Report and Financial Statements 2006

PRN. A7/0347

Contents

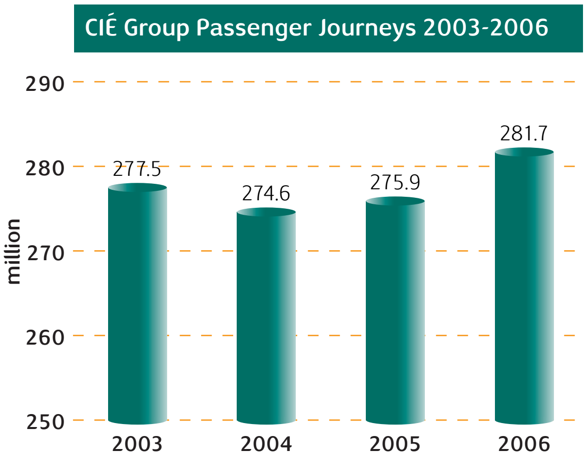
Córas Iompair Éireann would like to acknowledge funding on major projects by the Irish Government under the National Development Plan 2000-2006 and Transport 21 as well as co-funding by the European Union.

Design: First Impression

Chairman's Statement

The CIÉ Group finances are in a healthy state and in 2006 the Group returned an operating surplus of €22 million, with increases in revenue and services provided by the rail and bus companies.

In recent years, and in tandem with Government policy, the CIÉ Group has been pursuing an ambitious investment policy in order to develop a modern public transport system. These investments have made a critical difference to our customers across all of the subsidiaries and the response from our passengers has seen journeys rise to 281.7 million journeys in 2006.



The investment in new buses, trains and infrastructure made under the Government's National Development Plan 2000-2006 is continually monitored so that both Government and taxpayer get value for money for their commitment to public transport. I am pleased to report that during 2006 CIÉ has once again delivered on major investment projects with all projects being delivered on time and on budget, with many coming in below budget and ahead of time.

In recent years our rail investment programme has placed considerable emphasis on the enhancement of fixed assets such as rail track, signalling and bridges. Over 450 miles of track has been replaced, 300 bridges rebuilt, over 570 level crossings upgraded together with other related works on fencing, coastal defence etc.

Our investment in bus infrastructure primarily related to stations and garages and both of these areas have been upgraded over the past six years. In Dublin, for example, a new garage was opened at Harristown in 2004 which was the first new garage to be built by CIÉ in over 30 years. Amongst other things, a major upgrade of Busáras is currently underway, and a new bus station in Tralee is nearing completion.

The improvement to these core assets was the springboard for the second phase of investment which has seen the introduction of a modern and comfortable fleet of new trains and buses in all of our respective customer markets.

Over the last six years the DART fleet has doubled to meet the rapid increases in demand. At the same time in our Outer Commuter market, 136 modern commuter railcars have been added to the fleet.

For InterCity operations 2006 saw the introduction on the Dublin–Cork service of a new fleet of modern carriages, which is the beginning of a three year process which will see Iarnród Éireann's InterCity fleet transformed into one of the newest in Western Europe by 2008.

During 2006 Bus Éireann invested in fleet improvements with the purchase of 60 new Scania PB coaches.

In September, 2006 the Government announced the decision to increase the Bus Átha Cliath fleet by an additional 100 buses, funded under the Government's investment programme Transport 21. Delivery of the buses began in November 2006.

Investment and improved performance are inextricably linked. In our DART operation, for example, expenditure on longer trains and the extension of platforms is now paying dividends with passenger numbers in the peak periods increasing by 22% in the last two years, whilst off peak carryings have increased by 34% in the same period.

Overall there is a burgeoning trend in the rail sector. In 2006, Iarnród Éireann was the fastest growing passenger railway in Europe with demand increasing to 43.3 million journeys, representing a 14.9% increase over the then record 37.7 million journeys in 2005.

In the bus divisions Bus Átha Cliath had another successful year and as the largest public transport provider in Dublin, total passenger carryings during the year were over 146 million. Currently 93% of the population of Dublin has access to Bus Átha Cliath services and analysis of the distribution of carryings demonstrates a growth across many geographic areas, in particular along Quality Bus Corridor (QBC) route alignments.

Bus Éireann has also seen customer journeys rise to a record 49.7 million in 2006 up from 49.0 million in 2005 (excluding the School Transport Scheme). Increases in customer numbers have been recorded right across the business. On Bus Éireann city services 21.9 million customer journeys were made in 2006. In addition, 27.8 million customer journeys were recorded on Bus Éireann's commuter and Expressway services during the year.

The success of our bus companies, however, must be seen in the context of the congested urban operating environment in which they operate, with the resource implications estimated to cost CIÉ in excess of €80 million annually. Congestion impacts on the delivery of services to our customers and on our productivity.

In an era where the problems of global warming and greenhouse gas emissions are becoming prevalent, CIÉ has acted on energy efficiency measures and has reduced carbon emissions with new trains which are the greenest in Europe. In 2002 the Board decided to acquire 'sulphur free' diesel where this was commercially viable. In the interim both the rail and bus companies have complied fully with the increasingly onerous EU directives in this area.

Finally it should be noted that bus and rail operations have been transformed in the past six years. The current year has seen a consolidation of our activities with the promise of continued growth into the foreseeable future.

Bus Átha Cliath – a Robust Performance

In 2006, Bus Átha Cliath has again been shown to provide a real transport solution with immediate, measurable results and without doubt value for money for both the Government and customers. This has been achieved by displaying responsiveness and by being flexible and innovative with new services and products.

In the current year Bus Átha Cliath carried out a significant in-depth network review of its entire route network in the context of the projected population growth within the city and the county area, the proposed developments for the railway and Luas extensions and the planned expansion of the QBC network.

The review covers the requirements of the network up to 2010, with longer-term forecasts to 2015. This review was completed in 2006 and was submitted to the Government in support of the business case for additional buses. As a result, a Government decision meant that new buses became operational at the end of the year.

In the current year, Bus Átha Cliath commenced work on the development of a dedicated website and approval was given to progress with a smartcard system. A pilot exercise was carried on an Automatic Vehicle Location system (AVL) which will give improved operational knowledge as to the exact location of buses at any point in time. This will, over time, lead to improved real time customer information.

As well as the network review, Bus Átha Cliath is planning for the expansion of bus services in Dublin over the next five years with Quality Bus Corridors and better services on existing routes, to give more frequent services with reliable journey times.

Bus Éireann – Sustained Growth

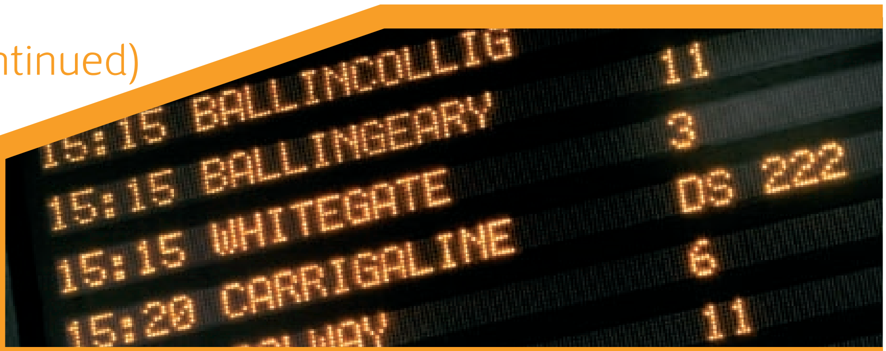
In 2006, Bus Éireann continued to perform well, building on the growth recorded in recent years. Customer journeys rose to almost 50 million, a record number for the company. During the year, many additional services were introduced and the programme of investment in stations, fleet and customer facilities continued.

Some of the highlights of the year included:

- An enhanced service on the Dublin-Belfast route with coaches on the hour every hour in both directions from 05:00hrs to 21:00hrs and every two hours after that, enabling customers to travel day and night and in addition providing links to Dublin Airport.
- The Nightrider service was successfully extended outside of the Dublin commuter area for the first time during the year. Donegal and Sligo now have late night services on Fridays and Saturdays throughout the year.
- The installation of ticket vending machines in Busáras and in Parnell Place Bus Station, Cork. These have proved popular with customers who find them to be simple and quick to operate. Further machines will be rolled out in 2007.
- Bus priority measures in Cork were added to in 2006. Initiatives such as the Green Routes, funded by the Department of Transport under the National Development Plan, are very welcome and the company looks forward to further progress in this area.
- Limerick County Council completed a section of Green Route from Raheen Roundabout to the Crescent Shopping Centre. The Council is currently working on another Green Route on the Ennis Road.

It should be noted that congestion is not confined to the Dublin region alone. There are similar problems in other cities such as Cork, Galway, Limerick, Waterford and Sligo, where the need for Quality Bus Corridors is required. We are currently in intensive discussions with the relevant local authorities in order to progress this issue.

Following a Government decision in July 2005, Bus Éireann has worked intensively to implement the new arrangements for the School Transport Scheme. We have eliminated the 3 for 2 seating arrangement and in 2006 seatbelts were fitted on all school buses.



Iarnrod Éireann – Rapid Passenger Growth and Service Improvements

In just two years since 2004, passenger numbers on the railway have increased by almost 25% or 8.5 million journeys, as the seeds of investment come to fruition.

There has been a major transformation of rolling stock during 2006 with the successful introduction into service of new Spanish-built trains on the Dublin-Cork line. These coaches feature a streamlined look with a distinctive livery, air conditioning, electronic seat reservation, on-board passenger information systems and 1st class coaches with features such as adjustable seating and in-seat radio.

Excellent progress has been made in the production of the new railcar fleet for other (apart from Dublin-Cork) InterCity services. The first of these have reached Ireland from South Korea for testing and commissioning and will be introduced by Autumn 2007.

All new rolling stock is fully accessible, including the new DART and Commuter railcars and the new InterCity coaches on the Cork route.

As well as new trains, rail services have also been improved under the investment programme including:

- Increased frequency of InterCity services to the west and south.
- Increased commuter services on the Maynooth and Drogheda commuter lines, as well as Carlow, Kildare and Athlone.
- Many peak DART services now operated by 8-carriage trains.

There have been improvements in customer facilities throughout the year. On line reservations and sales have expanded significantly to include first and standard class on all primary InterCity services. The number of automatic ticket vending machines at stations has been further increased and more exit validation gates put into operation at suburban stations. The tax saver scheme continued to expand with new companies joining the scheme.

The rail freight business was adversely impacted by the cessation of sugar refining in Ireland, the subsequent loss of beet traffic and Diageo’s decision to withdraw from rail distribution of their products in early 2006. An immediate review of the freight business cost base and a programme of mitigating actions was undertaken to offset these setbacks.

Finally Rosslare Europort again recorded a surplus for the year. Total revenue increased on a year-on-year basis with 2006 being a record year for RO-RO freight at the port.

CIÉ Holding Company

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

CIE Tours International: CIE Tours, the largest inward tour operator into Ireland, was voted ‘Best Coach Tour Company’ by the Irish Travel Agents Association for the third year running. CIE Tours provided holiday packages to over 52,000 people in 2006. This was a 10% increase over the previous year. Gross revenues were up by 8.9% on the 2005 performance.

The year also saw CIE Tours launch an online booking facility and bookings received were well above the company’s expectations. It is anticipated that this internet system will have a big impact on the booking and distribution processes over the coming years.

CIE Tours has also added to the range of new tours including a very successful series of Escorted Coach Tours of Italy sold in the US market. The success of these tours

in 2006 has prompted the company to add new and different products, such as European River Cruising for the 2007 season.

Property Division: Sales of surplus property by the CIÉ Property Division were realised during the year and there was in addition a profit on rental income with a 10.4% increase over the previous year. The division is presently working on major projects in Dublin (Spencer Dock, Barrow Street, Tara Street and Abbey Street/Great Strand Street), Cork (Kent Station), Galway (Ceannt Station Quarter), Kilkenny and Athlone which will all contribute further rental income in future years.

Commuter Advertising Network (CAN): Advertising sales on rail and bus vehicles as well as outdoor poster sites returned a net profit for 2006 with an 11.4% increase on the previous year. This was the result of increases in the advertising assets and the development of new business opportunities. CIÉ signed a new contract in January 2006 with Titan Outdoor Ireland which has resulted in a strong overall performance for the year while securing future revenue streams for the CIÉ Group and its three operating companies.

Ryder Cup

The European team wasn't the only winner at Straffan in September 2006. Bus Éireann, which was awarded the transport contract for the event demonstrated the effectiveness of public transport as a mass people mover with special bus and rail services carrying over 40,000 golf fans and a further 8,000 K Club staff to and from the Ryder Cup venue each day without a hitch, despite the stormy weather.

This world class sporting event was considerably assisted with the rolling travelator of bus services which moved people into and out of the venue effortlessly. Many were experiencing public transport working like clockwork in congestion free conditions for the first time.

Urban Operating Environment Cost CIÉ Over €80 million in 2006

Whilst progress has been made throughout the organisation it has to be highlighted once again that our bus companies face a very negative operating environment where, according to a 2005 study by BDO Simpson Xavier consultants, congestion has cost both Bus Éireann and Bus Átha Cliath over €80 million. This cost will have increased significantly in 2006.

The worsening situation has meant that bus speeds in Dublin are now 13% slower than in 2001 and are 36% slower than the international average. The cost of congestion to Bus Átha Cliath is now estimated at over €60 million.

Congestion is also detrimental to the financial position of Bus Éireann, imposing an excess cost of €22.6 million in 2006 beyond the costs experienced by operators in other European countries. If the situation is to improve, more bus priority measures need to be introduced in the Greater Dublin Area and also in Cork, Limerick, Galway, Waterford and Sligo.

Environmental Policy

As a matter of policy the CIÉ Board seeks to implement environmentally friendly low carbon transport solutions. There has been a major emphasis on this since 2000 in line with evolving EU directives for bus and rail diesel engines.

Both Bus Átha Cliath and Bus Éireann's new bus fleets have led to a substantial reduction in emissions over the period. From 2007, all CIÉ's buses will have engines compliant with the new Euro 4 emission limits and the companies have carried out trials with a 5% bio-diesel blend and are now examining the feasibility of expanding this across the bus and rail fleet.

Iarnród Éireann's new InterCity railcars will meet EU Nitrous Oxide emission limits for rail vehicles well in advance of the enforcement date of 2012.

Chairman's Statement (continued)

Acknowledgements

On behalf of the Board, I would like to express my thanks to the Minister for Transport, Mr. Martin Cullen T.D., for his continued support during the year, as well as to officials of the Department of Transport for their assistance.

I am also grateful to the Government, and particularly the Taoiseach and the Minister for Finance, for the major investment programmes currently being undertaken under the National Development Plan 2000-2006 and for the commitment given under the Transport 21 Plan announced in November 2005, which are and will be, so vital to the renaissance of public transport in Ireland.

The Board also gratefully acknowledges the EU Structural Fund co-financing which has been received.

I would like to extend a thank you to the staff of the CIÉ Group of companies for their sustained efforts throughout the year.

In conclusion, I would also like to thank the Board Members of all our companies for their constant help and support to me personally and for the giving of their time to serve on the Boards and on the many vital committees and advisory groups which help to keep the show on the road.

Dr. J.J. Lynch
Chairman

Operations Review

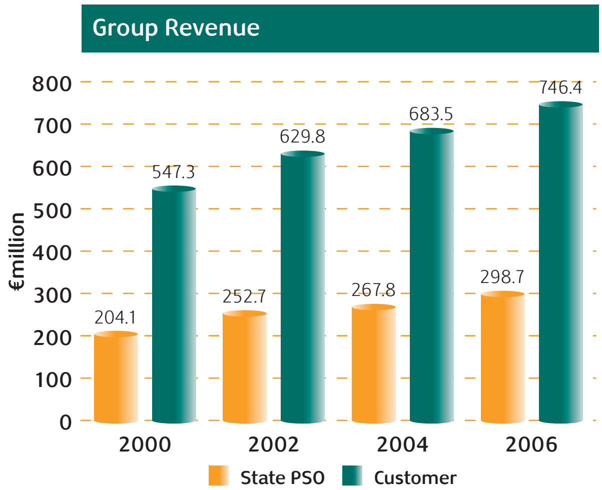
Group Results

The overall result for the CIÉ Group for 2006 is a surplus of €22.0 million compared to €25.8 million in 2005. These results are after taking into account the requirements of Accounting Standard FRS 17- Accounting for Retirement Benefits.

	2006 €m	2005 €m
Revenue	**746.4**	704.5
Public Service Obligation grant payment and Rail Safety grant	**298.7**	283.4
Total	**1,045.1**	987.9
Payroll related costs	**(558.4)**	(534.0)
Other operating costs	**(503.4)**	(440.6)
Financial costs	**9.1**	6.8
Profit on disposal of tangible assets	**29.6**	5.7
Total	**(1,023.1)**	(962.1)
Surplus	**22.0**	25.8

Excluding the impact of FRS 17 the operating result for 2006 is a surplus of €24.4 million compared to a surplus of €15.1 million in 2005.

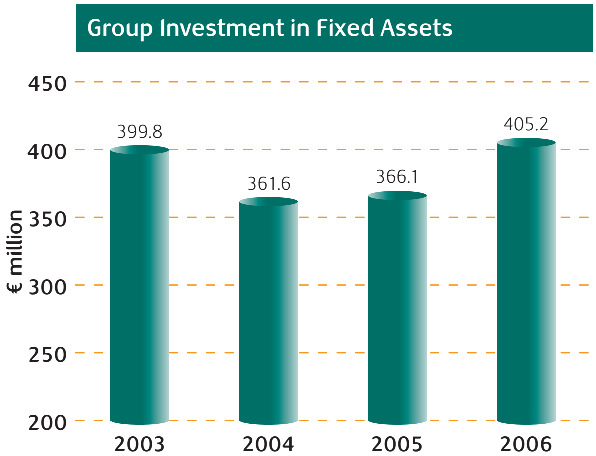
The Public Service Obligation (PSO) and Rail Safety grant payments of €298.7 million represent an increase of 5.4% on 2005 of which the Rail Safety grant represented €13.7 million (2005 - €13.3 million).



A Memorandum of Understanding on performance targets and service levels for the year was agreed between the group companies and the Department of Transport. The level of PSO is dependant on meeting these targets and during the year the group companies achieved these and in many cases exceeded them.

Operations Review (continued)

In addition, the Group received Exchequer funding of €296.4 million for capital expenditure and also €8.2 million in revenue support grants that were credited to the consolidated profit and loss account. Group investment for 2006 amounted to €405.2 million (2005- €366.1 million).



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.

Payroll costs increased by €24.4 million, due mainly to pay awards as part of the "Towards 2016" national pay agreement and increased pension costs. Other operating costs of €503.4 million include €30.0 million for exceptional operating costs comprising primarily of voluntary severance payments and business restructuring costs incurred by Iarnród Éireann at €27.4 million and by Bus Éireann at €2.6 million.

Group Companies

The detailed operations reviews for Iarnród Éireann, Bus Átha Cliath and Bus Éireann are contained in each company's separate Annual Report.

Iarnród Éireann

As one of Europe's fastest growing railways, Iarnród Éireann recorded a 14.9% increase in passenger journeys during 2006 with a total of 43.3 million rail user journeys on InterCity, DART and commuter services. This increase comes on top of the previous record of 37.7 million journeys made in 2005, which, in turn was a 9% growth on 2004. The significant passenger growth is as a direct result of the major investment programme in new track and trains under the National Development Plan 2000-2006.

The overall result for 2006, before exceptional items is a surplus of €23.3 million compared to a surplus of €15.4 million in 2005. Exceptional items of €27.4 million were incurred in 2006 resulting in an overall deficit of €4.1 million for the year.

The loss of key Diageo and sugar beet freight traffics resulted in a reduction in revenue estimated at €10 million for the year. A programme of rationalisation and reorganisation of the freight business was immediately implemented to mitigate the effects of these losses.

Exceptional costs of €27.4 million, comprising primarily of voluntary severance costs were incurred in 2006, of which the loss of the Diageo and sugar beet freight traffic contributed very significantly.

Increased payroll costs were driven substantially by additional on-train resources required to support the introduction of the new Mark IV rolling stock, additional contributions to the pension scheme and national pay awards under the partnership agreement "Towards 2016".

Bus Átha Cliath

Bus Átha Cliath had another successful year with increased profits and passenger numbers. A surplus of €4.3 million (2005 – €2.0 million) was recorded helped by strong financial controls and growth in revenue to €189.2 million (2005 – €181.5 million).

The number of passenger journeys for 2006 was over 146 million for the year, an increase of nearly 1 million over 2005. These figures take into account an additional 2 million bus customers who transferred to Luas from routes adjacent and parallel to the light rail system.

Bus Átha Cliath received a PSO payment of €69.8 million, for the provision of non-commercial services from the Government. This represents 27% of its operating costs.

This PSO payment is one of the lowest subsidies given to a European public bus transport company. An additional €2.0 million in subvention was received from CIÉ.

During 2006 a number of improvements were made to the bus network including the introduction of the new route 4 on the Merrion Road Quality Bus Corridor (QBC) linking Ballymun with St. Vincent's Hospital. Services to other areas including Bray, Tallaght, Finglas and Blanchardstown were also enhanced.

Gridlock

Congestion remains a major concern to Bus Átha Cliath and its customers. During 2006 the average speed of buses was 13% slower than in 2001, and 36% slower than the international average. A report by consultants BDO Simpson Xavier, in 2005, showed that congestion was costing the company in excess of €60 million per annum.

Where effective priorities are not in place services are experiencing severe delays, for example: journey times of 45 to 60 minutes to cross from Parnell Square to Leeson Street or Camden Street are now common place. Journey times from west Blanchardstown and Clondalkin to the City Centre have frequently taken in excess of two hours.

Improving the bus service can best be achieved by improved frequency and speed. Growth in passenger numbers and significant modal shift from car to bus can be achieved at a relatively low cost and examples of this can be seen in the success of Quality Bus Corridors in Stillorgan, Malahide and Lucan.

Bus Átha Cliath has been working very closely with the Dublin City Council's Quality Bus Network (QBN) office in recent months to develop a comprehensive bus priority programme for 2007 and 2008. A very substantial programme is now agreed by all the agencies, which will help address many of the serious delay points that are currently experienced across the city. It is anticipated that expenditure of €30 million in 2007 and €40 million in 2008 will be spent on this programme.

Network Review

Bus Átha Cliath currently provides a fleet of almost 1,100 buses over 189 routes travelling nearly 60 million kilometres per year. Bus Átha Cliath has expanded routes to meet growing population whilst safeguarding the quality of service levels throughout the whole network.

In September 2006 the Government announced the decision to increase the Bus Átha Cliath fleet by an additional 100 buses, funded under the Government's investment programme, Transport 21. Delivery of these buses began in November 2006. These additional buses have already allowed for the implementation of a number of service improvements in December 2006. Other significant improvements, including new routes and increased frequency will continue on a phased basis in the first half of 2007.

Bus Éireann

In 2006, Bus Éireann performed strongly, reflecting the continued growth of recent years. The company recorded an overall surplus of €2.3 million (2005 – €3.5 million) after the PSO payment of €26.4 million and an additional subvention of €4.0 million from CIÉ. Revenue grew to €265.1 million, up from €241.3 million in 2005. Revenue has grown consistently in recent years.

Highlights of the year included the launch of the Bus Éireann Community Support Programme in Limerick and the successful transport operation for the Ryder Cup.

Bus Éireann operated a total of 157.5 million vehicle kilometres in 2006, an increase of 4.2 million vehicle kilometres on 2005.

In the past five years, Bus Éireann has achieved growth of almost 11% in customer numbers on both long distance and commuter routes, and its city services were up by 5% over the same period.

The seventh independent audit of commitments given in the Bus Éireann customer charter was undertaken in 2006. A survey was carried out asking customers to rate the company's performance against the range of commitments given in the customer charter. A resulting satisfaction level of 86% was recorded.

New Customer Services

A range of improved and innovative customer services were introduced in 2006, in response to the growing demand for extended operating hours on public transport. Highlights include:

- An enhanced coach service on the Dublin-Belfast route.
- The extension of Nightrider to Donegal and Sligo.
- From October 2006 Bus Éireann announced a 50% increase in the level of frequency on the Letterkenny-Dublin route via Dublin Airport.
- Commuter services in the Greater Dublin Area were further expanded in 2006 to meet growing demand especially on the Dundalk-Drogheda-Dublin route.
- A new early morning service from Edenderry to Dublin was also launched.
- New routes and extra services were also introduced in Cork and Limerick.

School Transport

On 27th July, 2005 the Minister for Education and Science announced a range of measures agreed by the Government to provide all School Transport Scheme services on a one child per adult seat basis. Seat belts were also to be fitted on all school buses by the end of 2006.

Bus Éireann worked intensively throughout 2006 with the Department of Education and Science to successfully deliver these measures without disruption to services and on time.

New School Buses

In September 2006 Bus Éireann introduced 20 new custom built school buses. By the end of 2006, this number had increased to 34. The buses are distinctive yellow coloured vehicles, and are fitted with safety belts and CCTV systems.

Bus Station Improvements

There was significant investment in improving bus stations and customer facilities during the year.

The first phase of a major upgrade of Busáras in Dublin was completed in May 2006. Customer facilities have been upgraded with the introduction of electronic information display systems, ticket vending machines and automated doors.

A new bus station was constructed in Tralee, the project was completed at the end of 2006 at a cost of €1.9 million.

Fleet Upgrades

€16.3 million was invested in fleet improvements during the year, with the purchase of 60 new Scania PB coaches. 18 coaches were procured for operation on the CIE Tours fleet, with the remainder allocated to long distance services.

Traffic Congestion and Infrastructure

Traffic congestion continues to adversely affect the reliability of Bus Éireann services, particularly at peak times. Congestion cost the company in excess of €22.6 million in 2006.

Bus Éireann has long supported the introduction of bus lanes and similar measures in cities outside Dublin to tackle congestion. Freeing up road space for public transport results in shorter journey times, increasing the appeal of public transport. That in turn reduces the number of private cars on the road which improves general traffic conditions and reduces emissions.

Bus Éireann has successfully engaged with the local authority management in Cork, Galway, Limerick, Waterford and the Greater Dublin Area to plan and progress priority measures. The company has also promoted the potential for the opening up of hard shoulders for their use as bus lanes where possible.

CIÉ Group Services

CIE Tours International

During the year CIE Tours provided holiday packages to over 52,000 people, an increase of 10% over the previous year. Gross revenues of over €50 million were generated, up 8.9% on the 2005 performance.

The company's core business of Escorted Coach Tours of Ireland was again very strong with passenger numbers up 14% on 2005 levels. These tours provided tourists with an excellent image of Ireland while also bringing much needed revenue to the many hundreds of rural tourist attractions and accommodation providers around the country.

CIE Tours' continuing ability to sell quality products in the market place was once again recognised by the tourism industry. For the third year running the company was voted the "Best Coach Tour Company" by the Irish Travel Agents Association.

Group Property

During 2006 the CIÉ Property Division realised €15.1 million from the sales of surplus property and in addition, rental income amounted to €14.4 million an increase of 9.4% on 2005. Profit on rental income at €11.3 million was up 10.4% on the previous year.

The division is presently working on major projects in Dublin (Spencer Dock, Barrow Street, Tara Street and Abbey Street/Great Strand Street), Cork (Kent Station), Eyre Square in Galway, Kilkenny and Athlone.

The Property Division continues to provide professional advice to various infrastructural projects of Iarnród Éireann e.g. Level Crossing closures, Kildare Line upgrade, Cork commuter stations, Midleton and Pace (Dunboyne) etc.

Commuter Advertising Network (CAN)

Revenue from the sale of advertising in vehicles and on company property increased by 10.9% during 2006, which resulted in net profits of €7.6 million for the year.

The rise in profits at CAN, which is responsible for managing the Group's bus and rail outdoor advertising business, has largely been triggered by the increase in the value of the advertising assets and the development of new business opportunities.

Since the commencement of a new outdoor advertising contract in January 2006 between CIÉ and Titan Outdoor Ireland, both companies have worked in partnership to deliver steady growth and develop new fixed and transit advertising plant. This has resulted in a strong overall performance for the year while securing future revenue streams for the Group and its three operating companies.

Corporate Issues

Employment

The average number of people employed by the CIÉ Group at the end of 2006 was 11,816 a decrease of 110 on 2005.

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. Employees 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 Board safety committee in each of the operating companies continues to actively support the safety programmes of each company and encourages the widest possible involvement in safety promotion and accident prevention. Employee Well-Being Programmes are also operated by the Group companies.

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 2006 was to comply with the requirements of the regulation.

Procurement policy

The CIÉ Group Procurement Policy which was updated in September 2006 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.

Principal risks

The CIÉ Group deals with the principal risks to the businesses in a number of ways including health and safety described above. A risk register is maintained by each of the companies and updated periodically with the various risks and the action plans for addressing these. Iarnród Éireann, on behalf of the Group, enters into commodity swap contracts for fuel. CIÉ undertakes currency forward purchasing where it deems there is value and reduced risk to the Group.

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, inter-city, rural and school bus travel
- Road freight haulage
- Harbour management
- Event/holiday tours
- Ancillary services:
  Project management; Property; Legal; Insurance/ Liability management; IT and Telecom services.

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.

CIE

Córas Iompair Éireann

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

Iarnród Éireann

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

Bus Éireann

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

Bus Átha Cliath

City Services
Nitelink
City Tours
Xpresso
Airlink
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, 2006 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
Ms. M. Canniffe	
Mr. P. Cullen*	
Ms. M. Johnston*	
Mr. P. Kiely	
Mr. B. McCamley*	
Mr. J. Moloney*	
Mr. N. Ormond	
Prof. Y. Scannell	
Mr. J. Sorohan	
Ms. M. Walsh	

* Worker member
1 vacancy

Secretary of the Board

Ms. G. Finucane,
Heuston Station,
Dublin 8.

Telephone	+ 353 1 703 2008
Facsimile	+ 353 1 703 2276

Board Committees at 4th April, 2007

Audit Committee

Mr. P. Kiely	Chairman
Ms. M. Canniffe	
Mr. N. Ormond	
Mr. J. Sorohan	

Finance Committee

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

Remuneration Committee

Mr. P. Kiely	Chairman
Dr. J. J. Lynch	
Mr. J. Sorohan	

Members of the Board and Group Management (continued)

Property Committee

Ms. M. Walsh	Chairperson
Mr. N. Ormond	

2 vacancies

Group Management

Mr. R. Connolly	Acting Chief Financial Officer
Mr. B. Dowling	Managing Director, CIE Tours International
Mr. D. Fearn	Chief Executive, Iarnród Éireann
Mr. T. Hayes	Chief Executive, Bus Éireann
Mr. J. Meagher	Chief Executive, 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. Córas Iompair Éireann supports the principles and provisions of the Code of Practice.

The Board

The Board is comprised of twelve members, with one vacancy at present. 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 of an Audit Committee (see below), a Finance Committee (see below), a Property Committee and a Remuneration Committee. Their members are listed on pages 16 and 17.

Audit Committee

The Audit Committee has written terms of reference, and is composed of four non-executive Board members. 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 on this committee at present. 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.

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 that 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 Infrastructure Advisory 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 the internal audit department are defined by a Board approved charter. The Group Internal Auditor 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 would provide the assurance that material risks will be identified and appropriate actions 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.

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 that, 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 Group 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 the Córas Iompair Éireann Group and the parent Company under Section 34 (2) of the Transport Act, 1950 with your consent, we have audited the financial statements on pages 24 to 57 that have been prepared under the historical cost convention, and the accounting policies set out on pages 24 to 27.

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 issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out on page 21 in the Statement of Board's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the 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 in accordance with Generally Accepted Accounting Practices in Ireland. 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 and, where practicable, include such information in our report.

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

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 and Company's circumstances, consistently applied and adequately disclosed.

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

Auditors' Report to the Minister for Transport (continued)

Opinion

In our opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of affairs of Córas Iompair Éireann and of the Group as at 31st December, 2006 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,
Dublin.
4th April, 2007.

A. The maintenance and integrity of the Córas Iompair Éireann website is the responsibility of the Board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

B. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal Accounting Policies

The significant accounting policies and estimation techniques adopted by the 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 Transport Act, 1950 and the Companies Acts, 1963 to 2006. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

The financial statements have been prepared under the historical cost convention.

(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.

(D) TANGIBLE ASSETS AND DEPRECIATION (continued)

(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 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 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 that 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 that are known to be obsolete at the balance sheet date are written off and provision is made in respect of stocks that may become obsolete in the future.

(G) EUROPEAN UNION AND PUBLIC SERVICE OBLIGATIONS AND OTHER EXCHEQUER 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.

(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

Defined benefit pension scheme assets are measured at fair value. Defined benefit pension scheme liabilities are measured on an actuarial basis using the projected unit credit method. The excess of scheme liabilities over scheme assets is presented on the balance sheet as a liability. The pension charge to operating profit comprises the current service cost and past service costs. The excess of the expected return on scheme assets over the interest cost on the scheme liabilities is presented in the profit and loss account as other finance income. Actuarial gains and losses arising from the changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur.

(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	2006 €000	2005 €000
Revenue	1	**746,412**	704,520
Costs			
Payroll and related costs	3	**(558,405)**	(534,023)
Materials and services	4	**(423,812)**	(380,110)
Depreciation	5	**(49,578)**	(52,589)
Exceptional operating costs	6	**(30,043)**	(7,887)
Total operating costs		**(1,061,838)**	(974,609)
Deficit before profit on disposal of tangible assets, interest and Public Service Obligations/grants		**(315,426)**	(270,089)
Profit on disposal of tangible assets	7	**29,619**	5,675
Deficit before interest and Public Service Obligations/grants		**(285,807)**	(264,414)
Interest receivable		**509**	302
Interest payable			
- Operational	8	**(650)**	(889)
- Railway infrastructure	8	**(1,844)**	(1,545)
Other finance income	24	**11,100**	8,900
Deficit for the year before Public Service Obligations/grants		**(276,692)**	(257,646)
Public Service Obligations and other Exchequer grants	9	**298,681**	283,427
Surplus for the year		**21,989**	25,781

Movements in reserves are shown in Notes 20, 21 and 22 to the financial statements.
All figures relate to the continuing activities of the Group.

On behalf of the Board
Dr. J.J. Lynch *Chairman*
Mr. J. Sorohan *Board Member*

Statement of Total Recognised Gains and Losses

Year ended 31st December	*Notes*	**2006 €000**	2005 €000
Surplus for the year		**21,989**	25,781
Actuarial gain/(loss) in respect of pension schemes	*24*	**62,100**	(8,100)
Total recognised gains relating to the year		**84,089**	17,681

Consolidated Balance Sheet

As at 31st December	Notes	2006 €000	2005 €000
Fixed assets			
Tangible assets	11	**1,846,089**	1,628,195
Financial assets	12	**20**	20
		1,846,109	1,628,215
Current assets			
Stocks	13	**54,131**	49,022
Debtors	14	**171,552**	211,285
Cash at bank and in hand		**36,399**	4,851
		262,082	265,158
Creditors (amounts falling due within one year)	15	**(342,543)**	(397,769)
Net current liabilities		**(80,461)**	(132,611)
Total assets less current liabilities		**1,765,648**	1,495,604
Creditors (amounts falling due after more than one year)	16	**(101,795)**	(40,076)
Provisions for liabilities and charges	18	**(196,631)**	(186,152)
Retirement benefits obligation	24	**(224,700)**	(284,400)
Deferred income	19	**(1,219,143)**	(1,045,686)
		23,379	(60,710)
Financed by:			
Reserves			
Asset replacement reserve	22	**237,310**	237,310
Capital reserve		**28,556**	28,556
Profit and loss account deficit	20	**(254,998)**	(339,087)
Non-repayable State advances		**12,511**	12,511
	21	**23,379**	(60,710)

On behalf of the Board

Dr. J.J. Lynch *Chairman*

Mr. J. Sorohan *Board Member*

Company Balance Sheet

As at 31st December	Notes	2006 €000	2005 €000
Fixed assets			
Tangible assets	*11*	**452,635**	394,660
Financial assets	*12*	**295,511**	300,959
		748,146	695,619
Current assets			
Debtors	*14*	**84,074**	90,437
Cash at bank and in hand		**34,417**	3,264
		118,491	93,701
Creditors (amounts falling due within one year)	*15*	**(269,366)**	(325,397)
Net current liabilities		**(150,875)**	(231,696)
Total assets less current liabilities		**597,271**	463,923
Creditors (amounts falling due after more than one year)	*16*	**(101,795)**	(40,076)
Deferred income	*19*	**(271,785)**	(222,076)
		223,691	201,771
Financed by:			
Reserves			
Asset replacement reserve	*22*	**108,643**	108,643
Capital reserve		**28,556**	28,556
Profit and loss account	*20*	**73,981**	52,061
Non-repayable State advances		**12,511**	12,511
	21	**223,691**	201,771

On behalf of the Board

Dr. J.J. Lynch *Chairman*

Mr. J. Sorohan *Board Member*

Consolidated Cash Flow Statement

Year ended 31st December	Notes	2006 €000	2005 €000
Net cash inflow from operating activities	*23(A)*	**65,702**	56,066
Return on investments, servicing of finance and other finance income	*23(B)*	**(1,282)**	(1,990)
Capital expenditure and financial investment	*23(B)*	**(22,842)**	(39,743)
Cash inflow before use of liquid resources and financing		**41,578**	14,333
Financing - decrease in debt	*23(B)*	**(12,971)**	(3,997)
Increase in cash in the year		**28,607**	10,336

Reconciliation of net cash flow to movement in net debt *(note 23c)*			
Increase in cash in the year		**28,607**	10,336
Cash movement from decrease in debt and lease financing		**12,971**	3,997
Change in net debt resulting from cash flows		**41,578**	14,333
Movement in net debt in the year		**41,578**	14,333
Net debt at 1st January		**(135,595)**	(149,928)
Net debt at 31st December	*23(C)*	**(94,017)**	(135,595)

Notes to the Financial Statements

1. PROFIT AND LOSS FOR YEAR ENDED 31st DECEMBER

	Consol-idation FRS 17 €000	CIÉ €000	Iarnród Éireann -Irish Rail €000	Bus Éireann -Irish Bus €000	Bus Átha Cliath -Dublin Bus €000	Total 2006 €000	Total 2005 €000
Revenue							
Railway							
- Suburban rail division	-	-	51,902	-	-	51,902	42,019
- Mainline rail division	-	-	140,284	-	-	140,284	139,841
	-	-	192,186	-	-	192,186	181,860
Road freight	-	-	24,137	-	-	24,137	29,845
Rosslare Harbour	-	-	11,373	-	-	11,373	10,579
Road passenger services							
- Dublin city	-	-	-	-	189,272	189,272	181,453
- Provincial cities	-	-	-	24,333	-	24,333	23,373
- Other services	-	-	-	240,736	-	240,736	217,917
Tours	-	50,346	-	-	-	50,346	46,220
Central business activities	-	14,029	-	-	-	14,029	13,273
Total revenue	-	64,375	227,696	265,069	189,272	746,412	704,520
Expenditure							
Railway							
- Suburban rail division:							
Operational costs	-	-	65,509	-	-	65,509	61,435
Infrastructure costs	-	-	25,663	-	-	25,663	18,668
- Mainline rail division:							
Operational costs	-	-	199,026	-	-	199,026	195,745
Infrastructure costs	-	-	148,915	-	-	148,915	170,937
	-	-	439,113	-	-	439,113	446,785
Road freight	-	-	24,528	-	-	24,528	29,486
Rosslare Harbour	-	-	8,287	-	-	8,287	7,339
Road passenger services							
- Dublin city	-	-	-	-	260,477	260,477	245,778
- Provincial cities	-	-	-	35,674	-	35,674	33,391
- Other services	-	-	-	255,738	-	255,738	229,921
Tours	-	49,591	-	-	-	49,591	45,292
Central business activities	13,500	13,549	-	-	-	27,049	16,331
Total expenditure	13,500	63,140	471,928	291,412	260,477	1,100,457	1,054,323

1. PROFIT AND LOSS FOR YEAR ENDED 31st DECEMBER *(continued)*

	Consol-Idation FRS 17 €000	CIÉ €000	Iarnród Éireann - Irish Rail €000	Bus Éireann - Irish Bus €000	Bus Átha Cliath - Dublin Bus €000	Total 2006 €000	Total 2005 €000
(Deficit)/surplus							
Railway							
- Suburban rail division	-	-	(39,270)	-	-	(39,270)	(38,084)
- Mainline rail division	-	-	(207,657)	-	-	(207,657)	(226,841)
	-	-	(246,927)	-	-	(246,927)	(264,925)
Road freight	-	-	(391)	-	-	(391)	359
Rosslare Harbour	-	-	3,086	-	-	3,086	3,240
Road passenger services							
- Dublin city	-	-	-	-	(71,205)	(71,205)	(64,325)
- Provincial cities	-	-	-	(11,341)	-	(11,341)	(10,018)
- Other services	-	-	-	(15,002)	-	(15,002)	(12,004)
Tours	-	755	-	-	-	755	928
Central business activities	(13,500)	480	-	-	-	(13,020)	(3,058)
Operating (deficit)/surplus before exceptionals	(13,500)	1,235	(244,232)	(26,343)	(71,205)	(354,045)	(349,803)
Interest receivable/(payable)	-	442	(5,098)	932	1,739	(1,985)	(2,132)
Other finance income *(note 24)*	11,100	-	-	-	-	11,100	8,900
Profit/(loss) on disposal of tangible assets *(note 7)*	-	27,243	576	(79)	1,879	29,619	5,675
(Deficit)/surplus before Grants/ Subvention	(2,400)	28,920	(248,754)	(25,490)	(67,587)	(315,311)	(337,360)
State grants							
- operational	-	-	86,903	26,459	69,845	183,207	188,048
- infrastructure *(note 9)*	-	-	184,136	-	-	184,136	181,432
EU grant –infrastructure	-	-	-	-	-	-	1,548
C.I.E. Subvention	-	(7,000)	1,000	4,000	2,000	-	-
(Deficit)/surplus for the year before exceptionals	(2,400)	21,920	23,285	4,969	4,258	52,032	33,668
Exceptional operating costs *(note 6)*	-	-	(27,385)	(2,658)	-	(30,043)	(7,887)
Net (deficit)/surplus for the year	(2,400)	21,920	(4,100)	2,311	4,258	21,989	25,781

2. RAILWAY INFRASTRUCTURE COSTS

In compliance with EU Council Directive 91/440 these costs have been computed as follows:

		2006 €000		2005 €000
Maintenance of railway lines and works		**70,763**		66,800
Renewal of railway lines and works		**68,662**		87,601
Operating (signalling) and other expenses		**28,060**		26,733
Depreciation *(note 11 [f])*		**17,793**		17,328
Amortisation of capital grants		**(10,700)**		(8,857)
Total railway infrastructure costs		**174,578**		189,605
Infrastructure subvention	**(111,584)**		(110,080)	
Exchequer safety funding	**(3,890)**		(4,337)	
Renewals funding *(note 11 [a])*	**(68,662)**		(87,601)	
		(184,136)		(202,018)
Deficit for the year		**(9,558)**		(12,413)
Apportionment of costs:				
Mainline rail division		**148,915**		170,937
Suburban rail division		**25,663**		18,668
		174,578		189,605

3. PAYROLL AND RELATED COSTS

Staff costs	2006 €000	2005 €000
Wages and salaries	**517,293**	501,096
Social welfare costs	**44,098**	42,492
Other pension costs	**47,797**	39,759
	609,188	583,347
Own work capitalised	**(51,440)**	(49,870)
Net staff costs	**557,748**	533,477
Board members' remuneration		
Emoluments		
- for services as Board members	**210**	148
- for other services	**447**	398
Total Board members' remuneration and emoluments	**657**	546
Total payroll and related costs	**558,405**	534,023

Included in Board members remuneration is €262,707 (2005 - €220,627) paid to Dr. J.J. Lynch, Executive Chairman, being €227,707 (2005 - €201,581) for other services plus €35,000 (2005 - €19,046) for Board member's fees.

3. PAYROLL AND RELATED COSTS *(continued)*

	Staff Numbers	
	2006	2005
The average number of persons employed by company was as follows:		
CIÉ	**290**	298
Iarnród Éireann - Irish Rail	**5,317**	5,463
Bus Éireann - Irish Bus	**2,756**	2,758
Bus Átha Cliath - Dublin Bus	**3,453**	3,407
	11,816	11,926

4. MATERIALS AND SERVICES

	2006 **€000**	2005 €000
Included in materials and services are:		
Auditors' remuneration	**205**	200
Operating lease rentals	**5,682**	5,754
Revenue grants *(note 19)*	**(8,239)**	(1,687)

5. DEPRECIATION

	2006 **€000**	2005 €000
Depreciation *(note 11)*	**118,452**	108,998
Amortisation of capital grants *(note 19)*	**(68,874)**	(56,409)
	49,578	52,589

6. EXCEPTIONAL OPERATING COSTS

	2006 **€000**	2005 €000
Business restructuring	**(30,043)**	(7,887)

As part of their Financial Plan, Iarnród Éireann Introduced a voluntary severance and early retirement programme. The estimated cost in 2006 including severance payments and other costs associated with the programme is €27.4 million. Bus Éireann also incurred €2.6 million in business restructuring.

7. PROFIT ON DISPOSAL OF TANGIBLE ASSETS

	2006 €000	2005 €000
Net gain on sale of surplus land and buildings	**27,243**	5,955
Profit/(loss) on disposal of rolling stock, vehicles, plant and machinery	**2,376**	(280)
	29,619	5,675

8. INTEREST PAYABLE

	2006 €000	2005 €000
On loans and leases repayable wholly within five years	**605**	262
On loans and leases not wholly repayable within five years	**1,889**	2,172
	2,494	2,434
Interest apportioned:		
Group operational costs	**650**	889
Railway infrastructure costs	**1,844**	1,545
	2,494	2,434

9. PUBLIC SERVICE OBLIGATIONS AND OTHER EXCHEQUER 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 €298.681 million received in 2006 - €285.020 million under Sub-Head C1 of Vote 32 of Dáil Éireann and €13.661 million under the Railway Safety Investment Programme are given in the following table.

State grants relating to 2006 activities	**Total €000**
Iarnród Eireann - Irish Rail	
Public Service Obligation	188,716
Railway Safety Investment Programme	13,661
Total rail	202,377
Bus Átha Cliath - Dublin Bus	69,845
Bus Éireann - Irish Bus	26,459
	298,681
Add State grant for National Development Plan (NDP)	283,972
Other Exchequer grants	20,662
Total State funding	603,315

The total State funding was applied as follows:

Consolidated profit and loss account		298,681
Less: infrastructure		(115,474)
Subvention and railway safety grants – operational		183,207
Infrastructure subvention and railway safety grants	115,474	
NDP – credit against renewals of railway lines and works	68,662	
Infrastructure subvention *(note 1)*		184,136
Deferred income – capital grants		218,266
Other Exchequer revenue grants		17,706
Total		603,315

10. HOLDING COMPANY NET SURPLUS FOR THE YEAR

A summary of the financial results of the holding company and its subsidiaries is shown in Note 1.
The holding company's operating surplus for the year, after profit on disposal of tangible assets, amounted to €21,920,000.

11. TANGIBLE FIXED ASSETS

Group

	1st Jan. €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Cost				
Railway lines and works	977,503	83,277	-	1,060,780
Funding received for railway lines and works	(732,209)	(68,662)	-	(800,871)
Railway rolling stock	857,885	88,306	-	946,191
Road passenger vehicles	457,623	84,823	(35,688)	506,758
Road freight vehicles	6,836	-	(312)	6,524
Land and buildings	414,616	67,838	-	482,454
Plant and machinery	608,210	80,309	(663)	687,856
Docks, harbours and wharves	46,621	686	-	47,307
Total 2006	2,637,085	336,577	(36,663)	2,936,999

	1st Jan. €000	Charge For Year €000	Scrappings and Disposals €000	31st Dec. €000
Depreciation				
Railway lines and works	912,510	72,085	-	984,595
Funding received for railway lines and works	(732,209)	(68,662)	-	(800,871)
Railway rolling stock	274,658	33,013	-	307,671
Road passenger vehicles	280,037	38,433	(35,512)	282,958
Road freight vehicles	6,495	190	(306)	6,379
Land and buildings	24,934	7,940	-	32,874
Plant and machinery	230,277	34,511	(614)	264,174
Docks, harbours and wharves	12,188	942	-	13,130
Total 2006	1,008,890	118,452	(36,432)	1,090,910

	31st Dec. 2006 €000	31st Dec. 2005 €000
Net book amounts		
Railway lines and works	76,185	64,993
Railway rolling stock	638,520	583,227
Road passenger vehicles	223,800	177,586
Road freight vehicles	145	341
Land and buildings	449,580	389,682
Plant and machinery	423,682	377,933
Docks, harbours and wharves	34,177	34,433
Total	1,846,089	1,628,195

11. TANGIBLE FIXED ASSETS *(continued)*

Company

	1st Jan. €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Cost				
Land and buildings	413,338	67,654	-	480,992
Plant and machinery	30,467	1,083	(6)	31,544
Total 2006	443,805	68,737	(6)	512,536

	1st Jan. €000	Additions €000	Scrappings and Disposals €000	31st Dec. €000
Depreciation				
Land and buildings	24,931	7,920	-	32,851
Plant and Machinery	24,214	2,839	(3)	27,050
Total 2006	49,145	10,759	(3)	59,901

	31st Dec. 2006 €000	31st Dec. 2005 €000
Net book amounts		
Land and buildings	448,141	388,407
Plant and machinery	4,494	6,253
Total	452,635	394,660

(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.

	2006 €000	2005 €000
Renewals expenditure and related grants were as follows:		
Renewals expenditure	68,662	87,601
State grants	68,662	67,015
EU grants	-	1,548
Deferred grants	-	19,038
	68,662	87,601

(b) Road passenger vehicles at a cost of €45,045,000 (2005 - €51,710,000) were fully depreciated but still in use at the balance sheet date.

11. TANGIBLE FIXED ASSETS *(continued)*

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:

	2006 €000	2005 €000
Cost	**88,835**	88,573
Accumulated depreciation	**(47,227)**	(42,118)
Net book value at 31st December	**41,608**	46,455
Depreciation for year	**(5,109)**	(4,980)

(e) Included in the additions above are payments on account in respect of assets as set out below which were not yet in service:

	2006 €000	2005 €000
Railway rolling stock	**55,792**	177,816
Road passenger vehicles	**18,806**	5,197
	74,598	183,013

(f) Tangible fixed assets include railway infrastructure assets as follows:

	2006 €000	2005 €000
Cost	**648,349**	641,004
Accumulated depreciation	**(321,913)**	(304,120)
Net book value at 31st December	**326,436**	336,884
Depreciation for year *(note 2)*	**(17,793)**	(17,328)

12. FINANCIAL ASSETS

Group	Trade investments					
	Listed shares		Unlisted shares		Total	
	2006 €000	2005 €000	**2006 €000**	2005 €000	**2006 €000**	2005 €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

Company	Subsidiary companies			Trade investments		
	Unlisted Shares €000	Loans €000	Finance Leases €000	Listed Shares €000	Unlisted Shares €000	Total €000
Cost or valuation						
At 1st January, 2006	90,151	166,066	44,742	34	13	301,006
Less: Reduction in						
- finance leases			(4,948)			(4,948)
- Loan		(500)				(500)
At 31st December, 2006	90,151	165,566	39,794	34	13	295,558
Provision for permanent diminution in value						
At 31st December, 2006	-			(34)	(13)	(47)
Net book amounts						
At 31st December, 2006	90,151	165,566	39,794	-	-	295,511

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.

13. STOCKS

Group	**2006 €000**	2005 €000
Maintenance materials and spare parts	**22,742**	24,394
Infrastructure stocks	**20,261**	14,736
Fuel, lubricants and other sundry stocks	**11,128**	9,892
	54,131	49,022

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

14. DEBTORS

Group	2006 €000	2005 €000
Trade debtors	**23,731**	26,577
Department of Education and Science	**8,854**	6,329
NDP Iarnród Éireann investment projects funded by CIÉ	**75,733**	85,200
EU grants receivable	**46,563**	77,613
Other debtors and accrued income	**16,671**	15,566
	171,552	211,285
Company		
Trade debtors	**767**	1,332
NDP Iarnród Éireann investment projects funded by CIÉ	**75,733**	85,200
Other debtors and accrued income	**7,574**	3,905
	84,074	90,437

15. CREDITORS (amounts falling due within one year)

Group	2006 €000	2005 €000
Bank overdraft	**19,679**	16,738
Bank loans *(note 17)*	**8,743**	84,200
Finance lease obligations *(note 27)*	**4,760**	4,504
Trade creditors	**87,862**	83,366
Income tax deducted under PAYE	**8,977**	7,744
Pay related social insurance	**6,843**	6,488
Value added tax and other taxes	**5,612**	13,412
Other creditors	**39,733**	23,241
Restructuring provisions *(note 18)*	**21,261**	19,138
Third party and employer's liability claims *(note 18)*	**23,000**	23,584
Deferred income *(note 19)*	**84,689**	81,881
Accruals	**31,384**	33,473
	342,543	397,769
Creditors for taxation and social welfare included above	**21,432**	27,644

15. CREDITORS (amounts falling due within one year) *(continued)*

Company	2006 €000	2005 €000
Bank overdraft	**1,500**	2,190
Bank loans *(note 17)*	**8,743**	84,200
Finance lease obligations *(note 27)*	**4,760**	4,504
Trade creditors	**5,421**	3,473
Amounts owed to subsidiary companies	**203,600**	189,367
Income tax deducted under PAYE	**714**	488
Pay related social insurance	**175**	251
Value added tax and other taxes	**1,000**	2,685
Other creditors	**28,358**	15,079
Restructuring provisions *(note 18)*	**82**	228
Deferred income *(note 19)*	**5,546**	5,937
Accruals	**9,467**	16,995
	269,366	325,397
Creditors for taxation and social welfare included above	**1,889**	3,424

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

Group and Company	2006 €000	2005 €000
Bank loans *(note 17)*	**67,490**	500
Finance lease obligations *(note 27)*	**29,744**	34,504
Irrecoverable value added tax on finance leases	**4,561**	5,072
	101,795	40,076

17. BANK LOANS

Group and Company	2006 €000	2005 €000
These loans are repayable as follows:		
Within one year *(note 15)*	**8,743**	84,200
Between one and two years	**8,567**	500
Between two and five years	**27,765**	-
After five years	**31,158**	-
	67,490	500
Total	**76,233**	84,700

The presentation of the maturity analysis of loans and other debt above complies with the provisions of FRS 25, 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.

The Minister for Finance has guaranteed €75,733,000 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, 2006	19,138	209,736	228,874
Utilised during year	(25,262)	(12,929)	(38,191)
Transfer from profit and loss account	27,385	22,824	50,209
Balance carried forward 31st December, 2006	21,261	219,631	240,892
Apportioned:			
Current liabilities *(note 15)*	21,261	23,000	44,261
Amounts falling due after more than one year	-	196,631	196,631
	21,261	219,631	240,892
Company			
Balance at 1st January, 2006	228	-	228
Utilised during year	(146)	-	(146)
Transfer from profit and loss account	-	-	-
Balance carried forward 31st December, 2006	82	-	82
Current liabilities *(note 15)*	82	-	82

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.

(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.

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

(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) €2,000,000 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) Tours Operators' Liability for the Group with an indemnity of €2,000,000 on any one incident and in the aggregate, subject to an excess of €250,000.

(v) 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.

(vi) In addition, each of the subsidiary companies within the Group has aggregate cover in the twelve month period, April 2006 to March 2007, 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.

(vii) Terrorism Public Liability cover for the Group of €10,000,000, subject to excesses appropriate to the incident category.

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

(viii) Group Combined Liability Insurance overall indemnity is €200,000,000 for the twelve month period, April 2006 to March 2007, for rail and road transport Third Party and Other Risks liabilities.

(ix) All Risks, including storm damage, with an indemnity of €200,000,000 in respect of Group's property in excess of €1,000,000 on any one loss or series of losses, with the annual excess capped at €5,000,000 in aggregate.

(x) 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.

(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.

19. DEFERRED INCOME

Group	1st Jan. 2006 €000	Received and Receivable €000	Profit and Loss A/c €000	31st Dec. 2006 €000
Capital grants				
Railway lines and works	36,048	11,411	(1,353)	46,106
Railway rolling stock	481,179	78,917	(20,360)	539,736
Plant and machinery	277,654	61,083	(20,002)	318,735
Docks, harbours and wharves	14,289	-	(281)	14,008
Land and buildings	223,992	55,932	(4,463)	275,461
Road passenger vehicles	69,600	37,832	(14,553)	92,879
	1,102,762	245,175	(61,012)	1,286,925
State grant for Railway Safety Investment Programme	23,589	-	(7,862)	15,727
	1,126,351	245,175	(68,874)	1,302,652
Other deferred income	1,216	-	(36)	1,180
	1,127,567	245,175	(68,910)	1,303,832
Revenue grants		8,239	(8,239)	-
Total	1,127,567	253,414	(77,149)	1,303,832

	2006 €000
Apportioned:	
Deferred income – amounts falling due within one year	84,689
Deferred income – amounts falling due after one year	1,219,143
	1,303,832

Company	1st Jan. 2006 €000	Received and Receivable €000	Profit and Loss A/c €000	31st Dec. 2006 €000
Capital grants				
Land and buildings	223,340	55,849	(4,433)	274,756
NDP infrastructure (I.T.) grant	4,647	-	(2,097)	2,550
Other deferred income	26	-	(1)	25
Total	228,013	55,849	(6,531)	277,331

19. DEFERRED INCOME *(continued)*

	2006 €000
Apportioned:	
Deferred income – amounts falling due within one year	5,546
Deferred income – amounts falling due after one year	271,785
	277,331

20. PROFIT AND LOSS ACCOUNT

Group	2006 €000
At 1st January, 2006	(339,087)
Total recognised gains relating to the year	84,089
At 31st December, 2006	(254,998)

Company	
At 1st January, 2006	52,061
Surplus for the year	21,920
At 31st December, 2006	73,981

21. RECONCILIATION OF MOVEMENTS IN RESERVES

Group	2006 €000	2005 €000
Group surplus for the year after Public Service Obligations and grants	21,989	25,781
Other recognised gains and losses relating to the year	62,100	(8,100)
Total recognised gains and losses relating to the year	84,089	17,681
Reserves at 1st January as previously stated	(60,710)	208,609
Prior year adjustment *(note 24)*	-	(287,000)
Closing reserves	23,379	(60,710)

Company		
Surplus for the year	21,920	2,033
Opening reserves	201,771	199,738
Closing reserves	223,691	201,771

22. ASSET REPLACEMENT RESERVE

Group	Railway Rolling Stock €000	Road Passenger Vehicles €000	Total €000
Balance at 31st December, 2006 and 2005	**135,806**	**101,504**	**237,310**

Company			
Balance at 31st December, 2006 and 2005	**35,120**	**73,523**	**108,643**

23. CASH FLOW STATEMENT

(A) Reconciliation of operating deficit to operating cash flows

Year ended 31st December	2006 €000	2005 €000
Operating deficit before Public Service Obligations and grants	**(315,426)**	(270,089)
Public Service Obligations and grants other than that applied to DART interest and renewals	**298,226**	282,527
	(17,200)	12,438
Depreciation	**118,452**	108,998
Amortisation of capital grants	**(68,910)**	(56,409)
Increase in stocks	**(5,109)**	(9,344)
Decrease/(increase) in debtors	**8,096**	(8,234)
Increase in creditors and provisions	**30,373**	8,617
Net cash inflow from operating activities	**65,702**	56,066

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

Returns on investments and servicing of finance	2006 €000	2005 €000
Interest received	**509**	302
Interest paid	**(281)**	(948)
Interest element of finance lease rental payments	**(1,965)**	(2,244)
State grant – DART interest	**455**	900
Net cash outflow for returns on investments and servicing of finance	**(1,282)**	(1,990)

23. CASH FLOW STATEMENT *(continued)*

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

Year ended 31st December	2006 €000	2005 €000
Capital expenditure and financial investment		
Purchase of tangible assets	(405,168)	(359,998)
Disposal of tangible assets	36,853	9,053
State and EU capital grants	345,473	311,202
Net cash outflow for capital expenditure and financial investment	(22,842)	(39,743)
Financing		
Repayment of debt due within one year	(84,200)	(83,436)
New loans	75,733	83,700
Capital element of finance lease rental payments	(4,504)	(4,261)
Net cash outflow from financing	(12,971)	(3,997)

(C) Analysis of net debt

	At 1st Jan. 2006 €000	Cash Flow €000	At 31st Dec. 2006 €000
Cash at bank and in hand	4,851	31,548	36,399
Bank overdrafts	(16,738)	(2,941)	(19,679)
		28,607	
Debt due after one year	(500)	(66,990)	(67,490)
Debt due within one year	(84,200)	75,457	(8,743)
Finance leases	(39,008)	4,504	(34,504)
		12,971	
Total	(135,595)	41,578	(94,017)

24. 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.

The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method.

An actuarial review was carried out as at 31st December, 2005. The market value of the assets of the schemes at that date was €1,410,939,000 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 107% in respect of the Regular Wages Staff Scheme and 99% 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 2.25% per annum. Actuarial reports are available to scheme members but are not provided for public inspection.

The actuarial valuations as at 31st December, 2005 were updated at 31st December, 2006 for Financial Reporting Standard 17 (FRS 17) purposes by a qualified independent actuary. The main financial assumptions used in the valuations were:

	31st Dec. 2006	31st Dec. 2005
	% p.a.	% p.a.
Discount rate	**4.60**	4.00
Inflation	**2.25**	2.25
Pension increases	**3.50**	3.50
Salary increases	**3.50**	3.50

24. PENSIONS *(continued)*

The assets of the schemes and the expected rates of return were:

	Long-term rate of return expected at 31st Dec. 2006	**Value at 31st Dec. 2006 €000**	Long-term rate of return expected at 31st Dec. 2005	Value at 31st Dec. 2005 €000
	% p.a.		% p.a.	
Equities	**7.10**	**816,800**	6.60	895,000
Property	**6.10**	**223,600**	5.60	154,600
Bonds	**4.10**	**429,700**	3.60	337,400
Cash	**2.50**	**75,200**	2.00	28,200
Total market value of assets		**1,545,300**		1,415,200
Present value of schemes' liabilities		**(1,770,000)**		(1,699,600)
Deficit in schemes		**(224,700)**		(284,400)

No deferred tax asset has been recognised in respect of the above pension deficit as it is unlikely that the Group will have taxable profits in the foreseeable future.

Analysis of movement in deficit during the year

	2006 €000	2005 €000
Deficit in scheme at beginning of the year	**(284,400)**	(287,000)
Current service cost	**(43,000)**	(34,700)
Employer contributions	**34,000**	41,500
Past service costs	**(4,500)**	(5,000)
Other finance income	**11,100**	8,900
Actuarial gain/(loss)	**62,100**	(8,100)
Deficit in scheme at end of the year	**(224,700)**	(284,400)

24. PENSIONS *(continued)*

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

	2006 €000	2005 €000
Charged to operating profit		
Current service cost	**43,000**	34,700
Past service cost	**4,500**	5,000
Total operating charge	**47,500**	39,700
Credited to other finance income		
Expected rate of return on pension scheme assets	**80,300**	75,700
Interest on pension scheme liabilities	**(69,200)**	(66,800)
Net return	**11,100**	8,900

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2006 €000	2005 €000
Actual return less expected return on pension scheme assets	**62,900**	151,900
Experience gains and losses arising on the scheme liabilities	**(21,700)**	(20,500)
Changes in assumptions underlying the present value of the scheme liabilities	**20,900**	(139,500)
Actuarial gain/(loss) recognised in STRGL	**62,100**	(8,100)

History of experience gains and losses for the year ended 31st December

	2006 €000	2005 €000
Difference between expected and actual return on scheme assets:		
■ Amount	**62,900**	151,900
■ Percentage of scheme assets	**4.1%**	10.7%
Experience losses on scheme liabilities:		
■ Amount	**(21,700)**	(20,500)
■ Percentage of the present value of the scheme liabilities	**(1.2%)**	(1.2%)
Total amount recognised in STRGL:		
■ Amount	**62,100**	(8,100)
■ Percentage of the present value of the scheme liabilities	**3.5%**	(0.5%)

25. CAPITAL COMMITMENTS

	2006 €000	2005 €000
Contracted for	**323,237**	424,185
Authorised by Board but not contracted for	**694,599**	183,808
	1,017,836	607,993

Capital grants totalling €943.5 million have been approved in respect of the above expenditure (2005 - €531.8 million).

26. 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 that could arise in the event of early termination of the agreements. These obligations are covered by letters of credit that are indemnified by the board of Córas Iompair Éireann. 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. The Group is confident it is compliant with EU procedures and conditions but until the final report is available there exists a possibility that some elements of expenditure due to be claimed or claimed to date may be deemed ineligible. Under these circumstances some or all of the funding for certain projects may not be receivable and some grants received to date could become repayable.

27. LEASE OBLIGATIONS

(A) Finance leases	2006 €000	2005 €000
Net obligations under finance leases fall due as follows:		
Within one year *(note 15)*	**4,760**	4,504
Between one and five years	**15,978**	17,251
After five years	**13,766**	17,253
	29,744	34,504
Total	**34,504**	39,008

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 plant & equipment/ Motor Vehicles €000
Within one year	**3,447**
Between one and five years	**4,757**
	8,204

28. 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 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 and An Post. Revenue from these services amounted to €188.3 million in 2006 and amounts due from these entities to the Group at 31st December, 2006 for these services totalled €13.9 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 the ESB and an Bord Gáis. Expenditure on these services amounted to €6.6 million in 2006 and amounts due to these entities by the Group at 31st December, 2006 for these services totalled €0.4 million.

29. 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 2006, 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.

30. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 4th April, 2007.