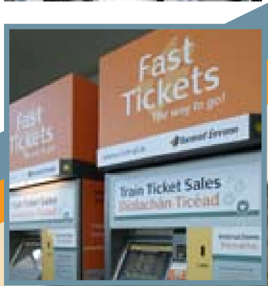
Iarnród Éireann

Annual Report and Financial Statements 2006



PRN. A7/0348

Contents

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

Design: First Impression

Operations Review

Summary: Continued Record Growth in Passenger Services

- The record investment programme in Iarnród Éireann's network and services continued to pay dividends in 2006, with 43.3 million journeys recorded, the highest ever number of passenger journeys
- Service quality improved with new rolling stock, added capacity, additional services and improved facilities
- Safety remained a top priority with an excellent safety record, the product of good safety management and prudent safety investment
- Accessibility improved through the introduction of new rolling stock and improved station facilities
- The Transport 21 programme for development and renewal of the railway continued with Exchequer and EU investment of €274 million in 2006
- Iarnród Éireann staff played an important role in the development of the railway through their commitment to quality of service, ability to adapt to new services and technologies and willingness to "go the extra mile"
- Operating surplus of €23.3m, an increase of €7.9m compared to 2005
- Rationalisation costs of €27.4m resulted in net deficit of €4.1m for the year

Passenger Business

A total of over 43.3 million journeys were made across Iarnród Éireann's InterCity, DART and Commuter services by close of business on 31st December, 2006, a 14% increase over the then record 37.7 million journeys in 2005.

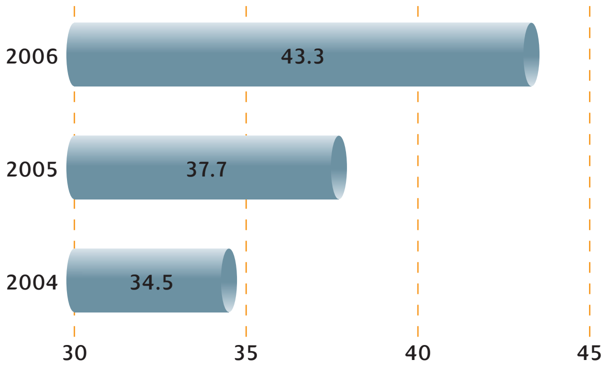


Figure 1 Passenger numbers (millions)

The increase reaffirms Iarnród Éireann's standing as the European Union's fastest-growing railway, a status achieved through the previous year's 9% growth. In just two years since 2004, passenger numbers have increased by almost 25%, or 8.5 million journeys.

This strong support for InterCity, DART and Commuter services is reflected in the 10.5% increase in revenue from €150.9m in 2005 to €166.8m in 2006.

Operations Review (continued)

The passenger growth in 2006 can be attributed to strong customer response to service improvements, including:

- Full-year benefit of completion of DART Upgrade, with many peak DART services now operated by 8-carriage trains
- Increased commuter services on Dublin/Maynooth and Dublin/Drogheda lines, as well as commuter service improvements to Carlow, Kildare and Athlone
- Increased frequency of some InterCity and regional services on routes such as Dublin/Sligo, Cork/Tralee, Dublin/Waterford, and additional weekend services on Dublin/Galway and Dublin/Limerick routes

2006 saw the first of the new InterCity fleet for Dublin/Cork route enter service and by the end of the year almost all services on the route were operated by the new trains. An hourly InterCity service frequency on the route commenced during January 2007.

The introduction of the new Dublin/Cork fleet began a three-year process which will see Iarnród Éireann's InterCity fleet transformed from the oldest in Western Europe to the newest by 2008, with a total of 250 new carriages entering service across the entire national network.

Freight

The Freight business saw another year of significant change. New trainload container business was secured between Ballina and Waterford, and volumes increased in mineral ore traffic. However, freight was adversely impacted by the cessation of sugar refining in Ireland, the subsequent loss of the beet traffic and Diageo's decision to withdraw from rail distribution of their products in early 2006. Total revenue lost from these businesses is estimated at €10m for 2006 and €16m in a full year. An immediate review of the freight business cost base and a programme of mitigating actions was undertaken to offset these setbacks.

Rosslare Europort

The result for 2006 was a surplus of €3.1m compared to €3.2m in 2005.

Total revenue earned from port activities was €11.4m compared to €10.6m in 2005. This increase is in line with 2006 being a record year for RO-RO Freight in Rosslare.

Fuel and Energy

Rising fuel costs have continued to impact significantly on Iarnród Éireann's cost base during 2006. Exposure to adverse movement in fuel and currency markets was mitigated to some extent through the policy of hedging exposures prudently.

Nonetheless, fuel and electricity costs for Iarnród Éireann, inclusive of VAT and excise duty, amounted to €26.4 million for 2006 compared to €20.5 million for 2005, an increase of 29%.

Payroll Costs

The increase in total payroll costs (including pension costs) was contained to 2.3% in 2006 and are expected to rise by 4% during 2007. Cost increases are primarily due to wage cost inflation, as staff numbers have been reducing through the policy of realigning the cost base and were reduced by 292 by the end of 2006.

Fares Increase

The Government approved an increase in Iarnród Éireann controlled fares by an average of 2.75% from 4th January 2007.

Restructuring Costs

Restructuring costs comprising primarily of voluntary severance totalling €27.4m were incurred during the year. The loss of the sugar beet traffic, the appointment of a new catering service provider and the withdrawal of Diageo from distribution of its products by rail resulted in a substantial programme of restructuring to realign the business because of its reduced revenue base.

Investment

Throughout 2006 Iarnród Éireann continued its recent investment in both the safety renewal programme and capital investment projects, with assistance from both the Exchequer under Transport 21 and the European Regional Development Fund (ERDF).

Government grants of €253.1m, EU grants of €20.9m, third party grants of €5.3m and own resource funding of €22.5m were invested in Transport 21 and other development projects during the year. This included a €100m investment in Safety Programme works.

The principle projects undertaken included completion of the DART Upgrade project, the commencement of the Kildare Route project, and the introduction of the new fleet of InterCity carriages on the Dublin/Cork route.

Work was also undertaken in 2006 on development of the scheme for the new InterCity railcar depot in Portlaoise.

The new Docklands station in Dublin received assistance from both the Exchequer and the European Union. Work commenced on the construction of the station in March, 2006 and was completed in March, 2007.

Work was also undertaken in 2006 on the automation or closure of a number of level crossings on the Kerry, Waterford and Westport lines in addition to resignalling on the Rosslare and Ballina lines.

Dublin/Cork Service Development

The new train service schedules for 2007 commenced on 14th January with the key InterCity development being the introduction of the hourly service on the Dublin/Cork main line. There are 15 trains between the two cities each week day, departing from Dublin on the hour and from Cork at 30 minutes past each hour, and the route capacity has been almost doubled.

The principal customer advantages of the service are those of quality, comfort, frequency and capacity. All services can be reserved on-line in advance, for both first and standard class accommodation. The hourly pattern also brings resource efficiencies in terms of rolling stock utilisation and train crew deployment.

Commuter Service Development

The new schedules for 2007 include some significant enhancement of the commuter service network for Dublin. In particular the schedules allow for the introduction of the new Clonsilla to Docklands commuter operation from March 2007, providing a 10-minute frequency in the heart of the peak.

Some specific stations have also been given additional services in response to localised demand growth including Gorey, Arklow and Wicklow, Enfield and Kilcock, and Dundalk.

During the second half of 2007, the introduction of new InterCity railcars on the Sligo line to replace the commuter railcars will allow the latter vehicles to be used to provide further capacity on the core Maynooth and Drogheda line services.

DART Development

The amended contract with Siemens for the completion of the DART car refurbishment programme includes a reduced number of vehicles being out of service for refurbishment at any given time. This has enabled revised DART car links to be implemented in the 2007 schedules, significantly increasing the number of 8-car DART trains in peak time operations, with the majority of peak services now 8-car. This further increases peak time DART capacity from the north and southside stations.

Ticketing and Sales

There have been improvements in customer facilities throughout the year, resulting in increased business.

- Online reservations and sales have expanded significantly to include first and standard class on all primary InterCity services
- Development is taking place to examine the feasibility of home print ticketing for InterCity online bookings
- Ticket types have been simplified with many lesser used products withdrawn
- The number of automatic ticket vending machines at stations has been further increased
- The tax saver scheme has been taken up by more customers with an additional thirty-five new companies joining in January.
- Automatic ticket-checking gates are in operation at Connolly Station, Grand Canal Dock, Clontarf Road, Blackrock, Lansdowne Road and Tara Street. The gates are operating successfully and providing an excellent deterrent to fare evasion.

Taxsaver Commuter Tickets: Revenue and Volumes

The Taxsaver Commuter product is one of the fastest growing products. The scheme is in operation since 1999 and sales are going from strength to strength. TaxSaver sales increased from 11m in 2005 to 15m in 2006. The launch of the on-line system in 2005 has added to this success. There are now over 1,600 companies ordering Monthly and Annual TaxSaver tickets on-line from Iarnród Éireann. The launch of the system on the Iarnród Éireann website in 2005 gave the product a significant impetus.

Student Market

Sales of Student Travelcard for 2006 were at their most buoyant since its introduction with 51,500 cards sold compared to 39,270 in 2005. This represents a growth of over 31%.

Catering

A significant initiative in 2006 was the outsourcing of catering on the cross border Dublin-Belfast service to an external provider – Corporate Catering Ltd. This contract arrangement provides more certainty in levels of service in this non-core activity. It also focuses the service on more commercial and customer service activities.

A review of catering to meet the changing needs of the new InterCity services has taken place and an external provider of catering, Rail Gourmet Ltd., has now been selected to take over onboard catering on all domestic InterCity services.

Service Performance

Iarnród Éireann reports on performance indicators to the Department of Transport on a quarterly basis, against the targets contained in the Memorandum of Understanding on Service Levels.

2006 represented a year of further overall improvement in passenger service punctuality and reliability.

Iarnród Éireann met or exceeded the punctuality targets on all routes during 2006. Discussions are in progress with the Department of Transport to agree a new set of targets for 2007.

Route		Target %	2006 %	(2005) %
DART	0-10 mins	*90*	**97.6**	(95.4)
Commuter				
Maynooth	0-10 mins	*87*	**97.1**	(95.7)
Northern	"	*87*	**96.4**	(94.8)
Kildare	"	*85*	**94.9**	(91.7)
InterCity				
Cork	0-10 mins	*90*	**91**	(91)
Tralee	"	*85*	**91**	(89)
Limerick	"	*90*	**95**	(95)
Galway	"	*85*	**93**	(90)
Westport	"	*85*	**90**	(88)
Sligo	"	*85*	**96**	(88)
Belfast	"	*90*	**91**	(79)
Rosslare	"	*85*	**93**	(93)
Waterford	"	*85*	**96**	(92)

Figure 2 Service Performance 2006

Safety

Safety remains the top priority for Iarnród Éireann and a strong safety culture permeates the organisation.

2006 was another good year for Iarnród Éireann's safety record with no major train movement accidents involving serious injury or loss of life.

Safety statistics are closely monitored by Iarnród Éireann management and 2006 saw continuous improvement in a number of key indicators such as Signals Passed At Danger (SPADs), Level Crossing incidents involving trains and Lost Time accidents.

A particular area of concern continues to be incidents at road user interfaces such as cars striking level crossings and trucks getting stuck under bridges. Considerable effort has been put into these areas with the implementation of advance warning signs and strike barriers, TV and local advertisement campaigns and prosecutions of offenders.

The Railway Safety Bill 2001 was enacted as the Railway Safety Act 2005. The Railway Safety Commission has now been accorded independent status.

Iarnród Éireann completed its Safety Case during 2006 and it was formally accepted by the Railway Safety Commission at the end of January, 2007.

A full simulation of an emergency situation was carried out during 2006, involving all the emergency services.

Many useful lessons were learned from this exercise and have been taken into account for emergency planning.

2006 was the third year of the 2004-2008 Railway Safety and Renewals Programme and is a continuation of works started in the previous year involving the renewal of track and permanent way, structures and signalling infrastructure.

In 2006, over €100m was spent on safety related works.

Accessibility

The programme to improve the accessibility of passenger stations includes: work on car park and set down areas, station entrance, ramps and steps, ticket windows, interiors, waiting rooms and toilets, colours and contrast, footbridge and lifts, platforms surfaces and tactiles, helps points, public address systems, listening points, lighting, CCTV, seating and shelters.

Accessibility work on the DART has been completed on all but two stations which have been delayed due to planning issues.

The Cork route accessibility project is well underway with works nearing completion at Thurles, Portlaoise and Mallow stations. The contracts for further stations on the route have been let and will be completed during 2007. The Galway and Belfast route projects are following behind, with tender preparation underway and works on them are planned to be completed during 2008.

All new rolling stock is fully accessible, including the new DART and Commuter railcars and the new InterCity coaches on the Cork route. 2007 will see the introduction of InterCity railcars, and all routes will have benefited from fully accessible rolling stock by mid 2008.

The Iarnród Éireann website irishrail.ie has won awards for its accessibility features.

Transport 21

There was major progress in key Transport 21 projects during 2006:

Rolling Stock

There has been a major transformation of rolling stock during 2006 with the successful introduction into service of the Mark IV train sets 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.

Good progress has been made in the production of new InterCity railcar fleet for all other InterCity services and the first of these have reached Ireland from South Korea for testing and commissioning.

The first of the refurbished original DART units has been returned to Ireland for final testing.

Kildare Route Project

The project to four-track the line between Cherry Orchard and Hazelhatch and deliver major frequency and capacity benefits to facilitate the growing InterCity and Commuter business into Heuston, saw the public inquiry to permit the works to proceed being held. The Railway Order was signed by the Minister for Transport on 5th December, 2006 and came into effect on 31st January, 2007. Enabling works and site preparation works are in progress and it is expected that contractors will be on site by May, 2007. This is the largest rail construction project undertaken by Iarnród Éireann to date and is scheduled to be completed in 2010.

Docklands Station

The Docklands Station opened on 12th March, 2007. This new city centre station facilitates growing demand from west Dublin suburbs such as Clonsilla, Castleknock and Coolmine directly to the IFSC and the booming docklands area. It also has easy pedestrian access to the south city via the new footbridge over the Liffey.

The project was completed 3 months ahead of schedule and under budget.

Glounthaune to Midleton Railway Line

This project proposes to re-open the Glounthaune to Midleton railway including the provision of stations at Carrigtwohill and Midleton. The proposed route commences at Cobh Junction and extends eastwards through Carrigtwohill to the town of Midleton, a total track distance of 10 kilometres.

The Railway Order public inquiry was held in October/November, 2006, and the Inspector's report has been published. Subject to Ministerial approval, it is expected that physical work will commence in 2007.

Western Rail Corridor

The Western Rail corridor connecting Limerick to Galway and Mayo has been identified as playing a key role in the development of economic development of the West.

Physical work will commence in 2007 on phase I, the Ennis to Athenry section, which, when open in 2008, and will allow direct Limerick to Galway services to operate.

Navan Line

Phase I: Clonsilla – N3 Interchange at Pace

Design and site clearance work has commenced with a target to have a railway order lodged and an inquiry held in 2007. Fingal County Council and Meath County Council have adopted a levy contribution scheme which will be applied to this development.

Phase II: Pace – Navan

A scoping study has commenced on the Pace to Navan line. A public consultation on the scoping study has been held.

Underground DART Interconnector Tunnel Design Development

Design work is progressing on the Underground DART Interconnector tunnel between Docklands and Heuston Station, which will transform the Iarnród Éireann network by providing a second high capacity DART line through the heart of the city centre, with intermediate stations at Pearse, St. Stephen's Green and High Street, and integrating all rail modes. Geotechnical investigations along the route have commenced. A tunnel design option has been proposed. Consultations have been held with other agencies, including the Rail Procurement Agency.

DART Resignalling

A preliminary scheme plan has been prepared for the resignalling of the section between Connolly Station and Grand Canal Dock and headway simulation is underway. This section is the most congested in the network and is running at capacity at peak times.

Laois Traincare Depot

Detailed design is nearly complete on the new InterCity DMU maintenance depot at Portlaoise. Embankment and earthworks are on-going. The main building foundation works are on-going.

Elimination of Permanent Speed Restrictions: Portarlington and Limerick Junction

Projects have commenced to remove the remaining permanent speed restrictions on the Dublin/Cork mainline at Portarlington and Limerick Junction.

Construction at Portarlington is expected to commence in March, 2007, and will deliver:

- An 80mph line speed through the station for Dublin/Cork mainline trains.
- Increased platform lengths to 215m.
- Increase the speed to 20mph for trains moving on/off the Athlone branch.

Operations Review (continued)

The project at Limerick junction will:

- Rationalise and upgrade the signalling system at Limerick Junction on the main Dublin/Cork Line. The signalling will be controlled from the Central Traffic Control (CTC) in Connolly.
- Provide colour light protecting signals at six level crossings between Tipperary and Clonmel.

Nationwide Car Park Programme

A programme to upgrade the car parks at stations has commenced featuring surface upgrade, lighting and CCTV. Works are complete at Mallow, Ennis and Louisa Bridge, Leixlip.

Detailed design for four priority sites of Newbridge, Arklow, Gormanston and Tullamore is complete. Planning permission for Tullamore has been granted. Tender documents are now ready for issue. Design work on a further 13 locations has commenced.

New Stations

A number of commercial opportunities has permitted the development of new stations at Adamstown, Phoenix Park and Grange Road, Baldoyle, which are all progressing well.

Other commercial opportunities have permitted the development of facilities at Kilkenny and integration opportunities with commercial developments will permit new station entrances at Pearse Station and Grand Canal Dock.

People

Partnership

A joint trades union/management training initiative in the Infrastructure division continued and extended during 2006. Further developments are proposed in regard to structuring partnership arrangements during 2007. This includes building on the success of the Top Participation Group and the Top Safety Consultative Group.

Equality

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

In addition equality proofing of company practice continued.

Staff Numbers

The essential process of pursuing increased efficiency and consequent productivity in the deployment of our human resources, as well as responding to changing market conditions which give rise to the need to consolidate or rationalise activities, continued during 2006. The effect of change and rationalisation generated in this process was a further overall reduction in manning levels measured as year end numbers, year on year, was a reduction to 4,768 core numbers, compared to 5,060 at year end 2005 i.e. a reduction of 292. The main contributing factor was the decline in the sugar beet and kegs freight traffic.

Industrial Peace

Iarnród Éireann services during 2006 were again delivered without disruption due to industrial action, apart from an unofficial industrial dispute in Cork. In essence Iarnród Éireann has managed an unprecedented period of more than five years continuous industrial peace ensuring the avoidance of service interruption or revenue loss.

Environmental Policy

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

It is Iarnród Éireann's Board policy to replace outdated rolling stock with a modern fleet that meets stringent EU emissions criteria.

The new Intercity railcar fleet meets future EU nitrous oxide emissions targets, which will not be enforced until 2012, and are Europe's most eco-friendly diesel fleet.

Risk Management

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

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

Directors and Other Information

Directors at 4th April 2007

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

Report of the Directors

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

Principal Activities and Financial Review

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

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

Iarnród Éireann recorded an operating surplus of €23.3m in 2006. This surplus was reduced by an exceptional item charge of €27.4m for restructuring costs associated with rationalising the cost base and the Freight and Catering businesses resulting in an overall deficit of €4.1m for 2006. Total revenue for the Company amounted to €227.7m in 2006, an increase of €5.4m or 2.4% over 2005. Passenger revenue at €167.1m shows an increase of 10.7% over 2005 and the number of passenger journeys increased by 14.9% from 37.7 million journeys in 2005 to 43.3 million journeys in 2006. These increases have been predominantly in the commuter areas where capacity has been enhanced through a combination of more frequent services and longer trains.

The public service obligation payment amounted to €188.7 million compared to €180 million in 2005. In addition a subvention amounting to €1m was received from CIÉ (2005 nil).

The Freight business had a very difficult year in 2006. The revenue base was severely eroded through the loss of both the sugar beet and the keg traffics. Considerable efforts were made to bring the cost structure back in line with the revenue earning capacity of the business. Further progress in this regard will be required during 2007 in order to achieve this objective.

The Company continues to focus strongly on improving quality and efficiency of its services for all customers. In monitoring the Company's performance a range of key operating and financial performance indicators are regularly reviewed by both the Directors and the Department of Transport. Payment in full of the public service obligation is contingent on meeting targets agreed annually between the Company and the Department of Transport. The Directors are pleased to report that based on a successful achievement of these targets in 2006 the Company received full payment of the public service obligation. A detailed review of performance is included in the Operations Review.

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

The Company continues to invest in rolling stock and infrastructure projects and during 2006 the capital investment projects in progress included:

- DART Upgrade
- Purchase of 67 Intercity carriages
- Safety & Renewals Programme
- Purchase of 150 regional diesel rail cars
- Resignalling of regional lines
- Improved accessibility for the mobility & sensory impaired

The financial statements for the year ended 31st December 2006 are set out in detail on pages 19 to 45.

The Board

The Company is controlled through its board of Directors. The board's main roles are to oversee the operation of the Company, to provide leadership to the Company, to approve the Company's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The board, which meets monthly during the year, has a schedule of matters reserved for its approval.

Code of Practice for the Governance of State Bodies

Maintaining high standards of corporate governance continues to be a priority of the Directors of Iarnród Éireann. The board has developed its corporate governance policy so as to give effect to the Code of Practice for the Governance of State Bodies issued by the Department of Finance.

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

Internal Control

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

Information

Regular reports and papers are circulated to the Directors in a timely manner in preparation for board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

The non-executive Directors receive periodic management accounts and regular management reports and information which enables them to scrutinise the Company's and management's performance against agreed objectives.

Going Concern

The accounts have been prepared on the going concern basis and the Directors report that they have satisfied themselves that the Company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the Directors have reviewed the budget for 2007, the medium term plans and the proposal for the Board of Córas Iompair Éireann to make sufficient financial resources available to fund the borrowing requirements of Iarnród Éireann for 2007 and 2008.

Books of Account

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

Railway Safety Act 2005

In December 2005 the Railway Safety Act 2005 was enacted which accorded independent status on the Railway Safety Commission from 2006. Various specific clauses of the Act were implemented during 2006 giving effect to; the requirements for Railway Safety Commission approval of an Iarnród Éireann Safety Case, the construction and placing into service of infrastructural new works and for trial running and placing into service of new or significantly altered rolling stock. The Iarnród Éireann Safety Case was submitted during October 2005 and received a certificate of acceptance issued by the Railway Safety Commission on 30th January 2007. Iarnród Éireann is, thereby, operating in compliance with the appropriate requirements of the Railway Safety Act, 2005.

Late Payment in Commercial Transactions Regulations 2002

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

Company Secretary

The Company Secretary is a full-time employee of the Company's parent Company, Córas Iompair Éireann. The Company Secretary is responsible for advising the board, through the Chairman, on all governance matters. All Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association provide that the appointment and removal of the Company Secretary is a matter for the Directors.

Directors

The Directors of the Company are appointed by the Chairman of Córas Iompair Éireann with the consent of the Minister for Transport. The names of the persons, who were Directors at any time during the year ended 31st December 2006 are as set out below. Except where indicated they served as Directors for the whole year.

Dr. J.J. Lynch	Chairman
Mr. R. Byrne	(Re-appointed 23rd September 2006)
Mr. P. Cullen	(Re-appointed 1st January 2007)
Mr. G. Duggan	(Re-appointed 9th February 2006 and 9th February 2007)
Mr. P. Gaffney	(Re-appointed 1st January 2007)
Ms. M. Johnson	(Re-appointed 1st January 2007)
Mr. E. Murphy	(Re-appointed 23rd September 2006)
Mr. C. Perry	(Appointed 23rd September 2006)

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

Auditors

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

On behalf of the board

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

4th April 2007.

Statement of Directors' Responsibilities

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

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

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

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

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

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the requirements of the Companies Acts, 1963 to 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

Independent Auditors' Report to the Members of Iarnród Éireann – Irish Rail

We have audited the financial statements on pages 19 to 45. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 19 to 20.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Irish law and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities on page 16.

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the company's affairs as at 31st December 2006 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

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

In our opinion the information given in the directors' report on pages 13 to 15 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 22 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31st December 2006 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
George's Quay
Dublin 2
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 company, are as follows:

(A) Basis of Preparation

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

The financial statements are prepared under the historical cost convention.

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

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

(B) Tangible Assets and Depreciation

The bases of calculation of depreciation are as follows:

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

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

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

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

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

(iii) Road freight vehicles
These assets are depreciated on the basis of historical cost spread over their expected useful lives using the sum of the digits method.

(iv) Docks, harbours and wharves; plant and machinery; catering services equipment
The above class of assets are depreciated by equal annual instalments, based on the historical cost spread over their expected useful lives.

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

(C) Leased Assets

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

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

(D) Stocks

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

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

(E) European Union and State Grants

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

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

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

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

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

(F) Foreign Currency

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

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

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

(G) Pensions

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

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

(H) Railway Infrastructure Costs

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

Profit and Loss Account

	Notes	Total 2006 €000	Exceptional Operating Items 2006 €000	Continuing Operations before Exceptional Items 2006 €000	Total 2005 €000	Exceptional Operating Items 2005 €000	Continuing Operations before Exceptional Items 2005 €000
			Note 5			*Note 5*	
Revenue		227,696	-	227,696	222,284	-	222,284
Costs							
Payroll and related costs	*3*	(259,824)	(27,385)	(232,439)	(234,978)	(7,887)	(227,091)
Materials and services	*4*	(153,369)	-	(153,369)	(149,661)	-	(149,661)
Depreciation less amortisation of capital grants	*6*	(17,458)	-	(17,458)	(19,257)	-	(19,257)
Total operating costs		(430,651)	(27,385)	(403,266)	(403,896)	(7,887)	(396,009)
Profit on disposal of tangible assets	*7*	576	-	576	109	-	109
Deficit before interest and State grants and CIÉ subvention		(202,379)	(27,385)	(174,994)	(181,503)	(7,887)	(173,616)
Interest payable							
- operational	*8*	(3,254)	-	(3,254)	(2,752)	-	(2,752)
- railway infrastructure	*8*	(1,844)	-	(1,844)	(1,545)	-	(1,545)
Total interest		(5,098)	-	(5,098)	(4,297)	-	(4,297)
Deficit for the year before State grants and CIÉ subvention		(207,477)	(27,385)	(180,092)	(185,800)	(7,887)	(177,913)
State grants- Public Service Obligation	*9*	188,716	-	188,716	179,990	-	179,990
State grants-railway safety grant	*9*	13,661	-	13,661	13,337	-	13,337
(Deficit)/surplus for the year after State grants	*2(A)*	(5,100)	(27,385)	22,285	7,527	(7,887)	15,414
Subvention-CIÉ	*2(A)*	1,000	-	1,000	-	-	-
(Deficit)/surplus for the year		(4,100)	(27,385)	23,285	7,527	(7,887)	15,414
Accumulated deficit at beginning of the year		(95,057)			(102,584)		
Accumulated deficit at end of the year		(99,157)			(95,057)		

All figures relate to the continuing activities of the company.

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

On behalf of the board

Dr. J.J. Lynch *Chairman*

Mr. R. Byrne *Director*

Balance Sheet

As at 31st December	Notes	2006 €000	2005 €000
Fixed assets			
Tangible fixed assets	*10*	**1,142,721**	1,032,954
Financial assets	*11*	**20**	20
		1,142,741	1,032,974
Current assets			
Stocks	*12*	**46,499**	41,076
Debtors	*13*	**158,199**	176,042
Cash at bank and in hand		**261**	220
		204,959	217,338
Creditors (amounts falling due within one year)	*14*	**(358,966)**	(354,354)
Net current liabilities		**(154,007)**	(137,016)
Total assets less current liabilities		**988,734**	895,958
Creditors (amounts falling due after more than one year)	*15*	**(34,304)**	(39,576)
Provisions for liabilities and charges	*18*	**(64,514)**	(62,851)
Deferred income	*19*	**(859,183)**	(758,698)
		30,733	34,833
Financed by:			
Capital and reserves			
Called up share capital	*20*	**29,204**	29,204
Asset replacement reserve	*21*	**100,686**	100,686
Profit and loss account		**(99,157)**	(95,057)
Shareholders funds	*22*	**30,733**	34,833

On behalf of the board

Dr. J.J. Lynch *Chairman*

Mr. R. Byrne *Director*

Cash Flow Statement

Year ended 31st December	Notes	2006 €000	2005 €000
Net cash inflow from operating activities	23(A)	17,348	18,341
Servicing of finance			
Interest paid	8	(2,503)	(1,423)
Interest element of finance lease rentals	8	(2,595)	(2,874)
State grant - DART Interest	9	455	900
Net cash outflow from servicing of finance		(4,643)	(3,397)
Investing activities			
Purchase of tangible assets		(242,492)	(254,185)
Sale of tangible assets		614	109
Capital grants		248,829	316,851
Net cash inflow from investing activities		6,951	62,775
Net cash inflow before management of liquid resources and financing	23(B)	19,656	77,719
Management of liquid resources	23(B)	(19,768)	(62,650)
Financing			
Capital element of finance lease rentals		(4,948)	(4,615)
Net cash outflow from Financing	23(B)	(4,948)	(4,615)
(Decrease)/increase in cash in the year	23(B)	(5,060)	10,454
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year		(5,060)	10,454
Cash inflow from holding company balance, lease financing and NDP Investment projects funded by CIÉ		24,716	67,265
Movement in net debt in the year		19,656	77,719
Net debt at 1st January		(146,932)	(224,651)
Net debt at 31st December		(127,276)	(146,932)

Notes to the Financial Statements

1. FINANCIAL OUTLOOK

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

The core aspects of this plan included a reduction in staff numbers, rationalisation of rail freight depots and tight control of non-labour costs. Further progress was made in 2006 and the directors consider that the company is on course to achieve these financial targets. They intend to continue to implement the key elements of this plan in 2007.

In the course of approving these accounts, the directors have received an undertaking from Córas Iompair Éireann that it will continue to make sufficient financial resources available to fund the borrowing requirements of the company for 2007 and 2008. Based on this undertaking, the directors consider it appropriate to continue to prepare these accounts on a going concern basis.

2. DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT

(A) Company result	**2006 €000**	2005 €000
Operating deficit before operating interest, Public Service Obligation, State grants and exceptional items;		
Rail operations;		
Mainline rail *(note 2B)*	**(58,742)**	(55,904)
Suburban rail *(note 2C)*	**(13,607)**	(19,416)
Total Rail operations	**(72,349)**	(75,320)
Subvention-CIÉ	**1,000**	-
Public Service Obligation and State grants for Rail operations	**86,903**	78,910
Operating surplus before operating interest and exceptional items:		
Rail Operations (incl Catering services)	**15,554**	3,590
Infrastructure Maintenance *(note 2D)*	**9,558**	12,413
Road freight *(note 2E)*	**(391)**	359
Rosslare Europort *(note 2F)*	**3,086**	3,240
Total operating surplus for year before operating interest and exceptional items	**27,807**	19,602
Interest	**(5,098)**	(4,297)
Profit on disposal of tangible assets	**576**	109
Total operating surplus before exceptional items	**23,285**	15,414
Exceptional operating costs *(note 5)*	**(27,385)**	(7,887)
(Deficit)/surplus for the year	**(4,100)**	7,527

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

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

(B) Mainline rail division	2006 €000	2005 €000
Revenue		
Passenger services	**127,270**	122,032
Freight services	**13,014**	17,809
Total revenue	**140,284**	139,841
Expenditure		
Maintenance of rolling stock	**(47,200)**	(46,624)
Fuel	**(21,327)**	(16,200)
Operating and other expenses	**(125,459)**	(127,492)
Operating depreciation	**(23,059)**	(18,508)
Amortisation of capital grants	**18,019**	13,079
Total expenditure	**(199,026)**	(195,745)
Operating deficit before operating interest and Public Service Obligation	**(58,742)**	(55,904)

(C) Suburban rail division	2006 €000	2005 €000
Revenue	**51,902**	42,019
Expenditure		
Maintenance of rolling stock	**(16,991)**	(13,495)
Fuel (including electricity for traction)	**(7,482)**	(6,220)
Operating and other expenses	**(38,036)**	(38,637)
Operating depreciation	**(18,870)**	(16,775)
Amortisation of capital grants	**15,870**	13,692
Total expenditure	**(65,509)**	(61,435)
Operating deficit before operating interest and Public Service Obligation	**(13,607)**	(19,416)

Included in the Maintenance of rolling stock figures in Mainline rail note 2(B) and Suburban rail note 2(C) are;

	2006 €000	2005 €000
- Depreciation charge	**2,512**	2,258
- Amortisation of grants	**1,510**	1,268

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

(D) Railway infrastructure maintenance	**2006 €000**	2005 €000
In compliance with EU Council Directive 91/440 the costs of the railway infrastructure division have been computed as follows:		
Maintenance of railway lines and works	**(70,763)**	(66,800)
Renewal of railway lines and works	**(68,662)**	(87,601)
Operating and other expenses	**(28,060)**	(26,733)
Depreciation *(note 10 (d))*	**(17,793)**	(17,328)
Amortisation of capital grants	**10,700**	8,857
Total expenditure	**(174,578)**	(189,605)
Operating deficit before operating interest payable and State grants	**(174,578)**	(189,605)
Infrastructure Public Service Obligation	**111,584**	110,080
Exchequer safety funding	**3,890**	4,337
Renewals funding	**68,662**	87,601
	184,136	202,018
Surplus for the year before operating interest payable	**9,558**	12,413
Apportionment of Costs (incl. operating interest payable)		
Mainline rail division	**148,915**	170,937
Suburban rail division	**25,663**	18,668
Total costs infrastructure maintenance	**174,578**	189,605

(E) Road freight division		
Revenue	**24,137**	29,845
Operating costs		
Maintenance of vehicles and equipment	**(756)**	(1,167)
Fuel	**(278)**	(413)
Operating and other expenses	**(23,300)**	(27,668)
Operating depreciation	**(194)**	(238)
Total expenditure	**(24,528)**	(29,486)
Net (deficit)/surplus for the year	**(391)**	359

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

(F) Rosslare Europort division	**2006 €000**	2005 €000
Revenue		
Harbour services	**11,373**	10,579
Operating costs		
Maintenance, operating and other expenses	**(7,187)**	(6,425)
Operating depreciation	**(1,615)**	(1,446)
Amortisation of capital grants	**515**	532
Total expenditure	**(8,287)**	(7,339)
Operating surplus before interest payable	**3,086**	3,240

(G) Public Service Obligation, State grants, EU and Exchequer Funding		
Allocated to:		
Rail operations	**86,903**	78,910
Infrastructure maintenance	**184,136**	202,018
	271,039	280,928
Sources:		
Public Service Obligation	**188,716**	179,990
Exchequer safety and other grants	**13,661**	13,337
Exchequer funded renewals	**68,662**	67,015
EU funded renewals	-	1,548
Deferred funding	-	19,038
	271,039	280,928

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

(H) Net surplus by activity before exceptional items

	Commercial €000	Social €000	Total €000
2006			
Revenue	35,510	192,186	227,696
Costs	(32,879)	(443,571)	(476,450)
Public Service Obligation, State grants, EU and Exchequer funding	-	271,039	271,039
Subvention CIÉ	-	1,000	1,000
Surplus for the year	2,631	20,654	23,285
2005 Net result	3,527	11,887	15,414

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

3. PAYROLL AND RELATED COSTS

	2006 €000	2005 €000
Staff costs		
Wages and salaries	243,489	238,667
Social welfare costs	20,608	20,371
Other pension costs	19,428	17,336
	283,525	276,374
Own work capitalised, renewals and engineering work for group companies	(51,249)	(49,519)
Net staff costs	232,276	226,855
Directors' remuneration		
- services as directors	60	26
- other emoluments	103	210
Total directors' remuneration and emoluments	163	236
Total payroll and related costs	232,439	227,091

3. PAYROLL AND RELATED COSTS *(continued)*

	Staff Numbers		Staff Numbers	
	2006 Average	2005 Average	**as at 31st Dec 06**	as at 31st Dec 05
The number of employees by activity, was				
■ Railway operations (incl Catering services)	**3,570**	3,655	**3,424**	3,628
■ Infrastructure	**1,242**	1,268	**1,212**	1,250
■ Road freight	**79**	108	**50**	97
■ Rosslare Europort	**88**	89	**82**	85
Sub-total	**4,979**	5,120	**4,768**	5,060
■ Projects	**338**	343	**346**	316
Overall-total	**5,317**	5,463	**5,114**	5,376

4. MATERIALS AND SERVICES

The deficit for the year before interest and State grants is arrived after charging the following under the materials and services heading.	**2006 €000**	2005 €000
Operating and other costs	**114,305**	114,318
Fuel and electric traction	**26,383**	20,485
Third party and employer's liability claims	**5,624**	7,235
Rates	**2,453**	3,103
Operating lease rentals	**4,505**	4,422
Auditors remuneration	**99**	98
	153,369	149,661

5. EXCEPTIONAL OPERATING COSTS

	2006 €000	2005 €000
Business restructuring	**27,385**	7,887

As part of the 2003 Financial Plan the company introduced a voluntary severance and early retirement programme. The estimated cost in 2006, including severance payments and other costs associated with the programme is €27.385 million.

6. DEPRECIATION

	2006 €000	2005 €000
Depreciation *(note 10)*	**64,093**	57,011
Amortisation of capital grants *(note 19)*	**(46,635)**	(37,754)
Total depreciation	**17,458**	19,257

7. PROFIT ON THE DISPOSAL OF TANGIBLE ASSETS

	2006 €000	2005 €000
Profit on disposal of Tangible assets	**576**	109

8. INTEREST PAYABLE

	2006 €000	2005 €000
On loan from holding company	**2,503**	1,423
On finance leases	**2,595**	2,874
	5,098	4,297
Interest apportioned:		
Operational costs	**3,254**	2,752
Railway infrastructure costs *(note 2 (D))*	**1,844**	1,545
	5,098	4,297

9. STATE GRANTS

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

Particulars of the State grants of €456.9 million received in 2006 are given in the following table, showing the relevant provision of EU regulations. A sum of €35.4 million in relation to grants received on buildings was passed back to the holding company.

	EU Regulation Number 1191/69 €000	1107/70 (Article 4) €000	Total €000
Revenue related			
Mainline rail			
Operation of passenger services	151,163	-	151,163
Residual deficit - State grants	-	-	-
	151,163	-	151,163
Suburban rail			
Operation of passenger services	14,015	-	14,015
Sub total	165,178	-	165,178

	EU Regulation Number 1192/69 €000	1107/70 (Article 3.1 [b]) €000	Total €000
Expenditure related			
Mainline rail			
Normalisation of accounts			
- Class III (pensions)	12,524	-	12,524
- Class IV (level crossings)	6,382	-	6,382
- Infrastructure grant (freight)	-	1,257	1,257
	18,906	1,257	20,163
Suburban services			
Normalisation of accounts			
- Class III (pensions)	2,365	-	2,365
- Class IV (level crossings)	555	-	555
	2,920	-	2,920
Sub total	21,826	1,257	23,083

9. STATE GRANTS *(continued)*

		Total €000
Total *(from previous page)*		188,261
Add State grant for DART interest - EU Regulation 1191/69		455
Sub total Public Service Obligation		188,716
State grant for NDP-2006	258,721	
Deferred funds ex CIÉ	9,466	
		268,187
Total State grants received		456,903
The total funding received was applied as follows:		
Profit & loss account		
Public Service Obligation		188,716
Railway Safety Revenue Grant	13,661	
Credit against the renewals of railway lines and works *(note10(a))*	68,662	
Deferred income *(note 19)*	141,017	
Deferred funding	9,466	
Transferred to CIÉ for Land & Buildings	35,381	
State grant for NDP		268,187
Total		456,903

10. TANGIBLE FIXED ASSETS

Cost	1st Jan 2006 €000	Reclassifications €000	Additions €000	Scrappings & Disposals €000	31st Dec 2006 €000
Railway lines and works	977,503	-	83,277	-	1,060,780
Railway rolling stock	857,885	-	88,306	(2,207)	943,984
Road freight vehicles	6,836	-	-	(312)	6,524
Plant and machinery	530,071	-	70,107	(222)	599,956
Catering equipment	1,130	-	-	-	1,130
Docks, harbours and wharves	46,621	-	686	-	47,307
Land and buildings	1,278	-	181	-	1,459
Capital work in progress	-	-	3	-	3
Sub total	2,421,324	-	242,560	(2,741)	2,661,143
Funding received for railway lines and works	(732,209)	-	(68,662)	-	(800,871)
Total	1,689,115	-	173,898	(2,741)	1,860,272

Depreciation	1st Jan 2006 €000	Reclassifications €000	Charge for year €000	Scrappings & Disposals €000	31st Dec 2006 €000
Railway lines and works	912,510	-	72,085	-	984,595
Railway rolling stock	274,658	-	33,013	(2,207)	305,464
Road freight vehicles	6,495	-	190	(306)	6,379
Plant and machinery	181,430	-	26,461	(190)	207,701
Catering equipment	1,086	-	44	-	1,130
Docks, harbours and wharves	12,188	-	942	-	13,130
Land and buildings	3	-	20	-	23
Sub total	1,388,370	-	132,755	(2,703)	1,518,422
Funding received for railway lines and works	(732,209)	-	(68,662)	-	(800,871)
Total	656,161	-	64,093	(2,703)	717,551

10. TANGIBLE FIXED ASSETS *(continued)*

	2006 €000	2005 €000
Net book amounts		
Railway lines and works	**76,185**	64,993
Railway rolling stock	**638,520**	583,227
Road freight vehicles	**145**	341
Plant and machinery	**392,255**	348,641
Catering equipment	**-**	44
Docks, harbours and wharves	**34,177**	34,433
Land and buildings	**1,436**	1,275
Capital work in progress	**3**	-
Total	**1,142,721**	1,032,954

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

	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 funding	**-**	19,038
	68,662	87,601

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

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

10. TANGIBLE FIXED ASSETS *(continued)*

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

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

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

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

	2006 €000	2005 €000
Railway rolling stock	**55,792**	177,816

(f) Included in tangible assets are amounts as stated below in respect of railway rolling stock and plant and machinery which are held under finance leases, whereby the company has beneficial ownership i.e. substantially all the risks and rewards associated with the ownership of an asset, other than the legal title:

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

11. FINANCIAL ASSETS

Trade investments - listed shares	**2006 €000**	2005 €000
Cost or valuation at 1st January	**63**	63
Provision for impairment in value at 31st December	**(43)**	(43)
Net book amounts at 31st December	**20**	20
Market value at 31st December	**49**	49

12. STOCKS

	2006 €000	2005 €000
Rolling stock, spare parts and maintenance materials	**17,435**	18,976
Infrastructure stocks	**20,261**	14,736
Fuel, lubricants and other sundry stocks	**8,803**	7,364
	46,499	41,076

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

13. DEBTORS

	2006 €000	2005 €000
Trade debtors	**15,507**	17,583
Amounts owed by holding and fellow subsidiary companies	**95,502**	75,733
EU grants receivable	**43,946**	75,585
Other debtors and accrued income	**3,244**	7,141
	158,199	176,042

14. CREDITORS (amounts falling due within one year)

	2006 €000	2005 €000
Bank overdraft	**18,179**	13,078
Trade creditors	**59,966**	62,167
Loan from holding company *(note 16)*	**165,066**	165,066
Finance lease obligations *(note 17)*	**5,490**	5,166
Income tax deducted under PAYE	**4,747**	4,286
Pay related social insurance	**3,360**	3,262
Value added tax and other taxes	**3,080**	9,735
Other creditors	**6,652**	4,480
Accruals	**4,031**	3,278
Restructuring provision *(note 18)*	**21,179**	18,910
Third party and employer's liability claims *(note 18)*	**6,000**	5,084
Deferred income *(note 19)*	**61,216**	59,842
	358,966	354,354
Creditors for taxation and social welfare included above	**11,187**	17,283

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

	2006 €000	2005 €000
Finance lease obligations *(note 17)*	**34,304**	39,576

16. LOAN FROM HOLDING COMPANY

	2006 €000	2005 €000
This loan is repayable as follows:		
Within one year *(note 14)*	**165,066**	165,066

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

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

17. LEASE OBLIGATIONS

(A) Finance leases

	2006 €000	2005 €000
Net obligations under finance leases fall due as follows:		
Within one year *(note 14)*	**5,490**	5,166
Between one and five years *(note 15)*	**18,428**	19,787
After five years *(note 15)*	**15,876**	19,789
	34,304	39,576
	39,794	44,742

(B) Operating leases

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

	2006 €000	2005 €000
Within one year	**2,930**	2,174
Between one and five years	**3,727**	3,094
	6,657	5,268

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring Provision €000	Third Party and Employer's Liability Claims €000	Total €000
Balance at 1st January 2006	18,910	67,935	86,845
Utilised during the year	(25,116)	(3,045)	(28,161)
Transfer from profit and loss account			
- Exceptional item	27,385	-	27,385
- Other	-	5,624	5,624
	27,385	5,624	33,009
Balance carried forward	21,179	70,514	91,693
Less amount classified as current liability *(note 14)*	(21,179)	(6,000)	(27,179)
Balance at 31st December 2006	-	64,514	64,514

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

(A) External Insurance Cover

The Board has the following external insurance cover:

(i) Iarnród Éireann – Irish Rail

Third Party Liability in excess of

(a) €5,000,000 on any one occurrence or series of occurrences arising out of any one rail transport event and

(b) €1,500,000 on any one occurrence or series of occurrences arising out of any one road transport event, except in the case of claims subject to United States jurisdiction where the excess is US$3,300,000.

(ii) Group

Third Party Liability in excess of €150,000 on any one occurrence or series of occurrences arising out of Other Risks events, except

(a) at Ossary 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.

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

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

(iv) In addition, each of the subsidiary companies within the Group has aggregate cover in the twelve month period, April 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

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

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

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

(vii) Fire and Special Perils for the Group, including storm damage, with an indemnity of €200,000,000 in respect of Group's property in excess of €1,000,000 on any one loss or series of losses, with the annual excess capped at €5,000,000 in aggregate.

(viii) Terrorism indemnity cover for the Group is €200,000,000 with an excess of €500,000 in respect of railway and road rolling stock and €150,000 in respect of other property damage, for each and every loss.

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

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

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

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

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

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

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

19. DEFERRED INCOME

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

	1st Jan 2006 €000	Received and Receivable €000	Amortised to Profit & Loss Account €000	Retirements & Disposals €000	31st Dec 2006 €000
Capital Grants					
Land and buildings	653	82	(8)	(22)	705
Railway lines & works	36,048	11,411	(1,353)	-	46,106
Railway rolling stock	481,179	78,917	(20,360)	-	539,736
Plant and machinery	261,592	58,118	(16,736)	(12)	302,962
Docks, harbours and wharves	14,289	-	(281)	-	14,008
Total capital grants	793,761	148,528	(38,738)	(34)	903,517
State grants – Railway Safety Investment Programme	23,589	-	(7,862)	-	15,727
Other deferred income	1,190	-	(35)	-	1,155
Total	818,540	148,528	(46,635)	(34)	920,399

Shown as:	**2006 €000**	2005 €000
Deferred income - amounts falling due within one year *(note 14)*	**61,216**	59,842
Deferred income - amounts falling due after more than one year	**859,183**	758,698
	920,399	818,540

The grants received under the Railway Safety Investment Programme (1999 – 2003) and the NDP (2000 to 2006) will be released to the profit and loss in accordance with the Railway Safety Investment Programme. Grants received and receivable in 2006 were Exchequer €141,016,566, EU €6,086,277 and Third Party €1,425,059.

20. SHARE CAPITAL

	2006 €000	2005 €000
Authorised:		
Ordinary shares of €1.27 each	**95,230**	95,230
Allotted, called up and fully paid		
Ordinary shares of €1.27 each	**29,204**	29,204

21. ASSET REPLACEMENT RESERVE

	2006 €000	2005 €000
Balance at 31st December	**100,686**	100,686

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

22. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2006 €000	2005 €000
Surplus for the year after State grants and CIÉ subvention	**23,285**	15,414
Exceptional operating costs *(note 5)*	**(27,385)**	(7,887)
Opening equity shareholders' fund	**34,833**	27,306
Closing equity shareholders' funds	**30,733**	34,833

23. CASH FLOW STATEMENT

(A) Reconciliation of deficit to net cash inflow from operating activities

	2006 €000	2005 €000
Deficit before Public Service Obligation, State grants and servicing of finance and after CIÉ subvention	**(201,379)**	(181,503)
Public Service Obligation,State grants other than that applied to DART interest and renewals *(note 9)*	**201,922**	192,427
Surplus for the year before servicing of finance	**543**	10,924
Profit on disposal of tangible assets	**(576)**	(109)
Depreciation	**64,093**	57,011
Amortisation of capital grants *(note 19)*	**(46,670)**	(37,754)
Increase in stocks	**(5,423)**	(8,400)
Decrease/(increase) in debtors	**5,973**	(6,150)
(Decrease)/increase in creditors and provisions	**(592)**	2,819
Net cash inflow from operating activities	**17,348**	18,341

(B) Analysis of net debt

	At 1st Jan 2006 €000	Cash Flow €000	At 31st Dec 2006 €000
Cash in hand	220	41	261
Bank overdraft	(13,078)	(5,101)	(18,179)
Loans	(165,066)	-	(165,066)
Finance leases	(44,742)	4,948	(39,794)
Intergroup balance	75,734	19,768	95,502
	(146,932)	19,656	(127,276)

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

24. PENSIONS

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

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

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

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

The actuarial position of Córas Iompair Éireann pension schemes at 31st December 2006 was deficit €224.7 million (2005 €284.4 million).

25. CAPITAL COMMITMENTS

	Contracted for €000	Authorised by the directors but not contracted for €000
2006		
Within one year	**168,399**	**331,968**
From two to five years	**123,237**	**339,905**
	291,636	**671,873**
Of which funding amounts to:	**290,452**	**653,003**
2005		
Total capital commitments	361,748	179,625

26. CONTINGENT LIABILITIES

(A) Pending Litigation

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

(B) Finance Leases

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

27. RELATED PARTY TRANSACTIONS

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

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

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

28. MEMBERSHIP OF CÓRAS IOMPAIR ÉIREANN GROUP

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

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

29. APPROVAL OF FINANCIAL STATEMENTS

The directors approved the financial statements on 4th April 2007.