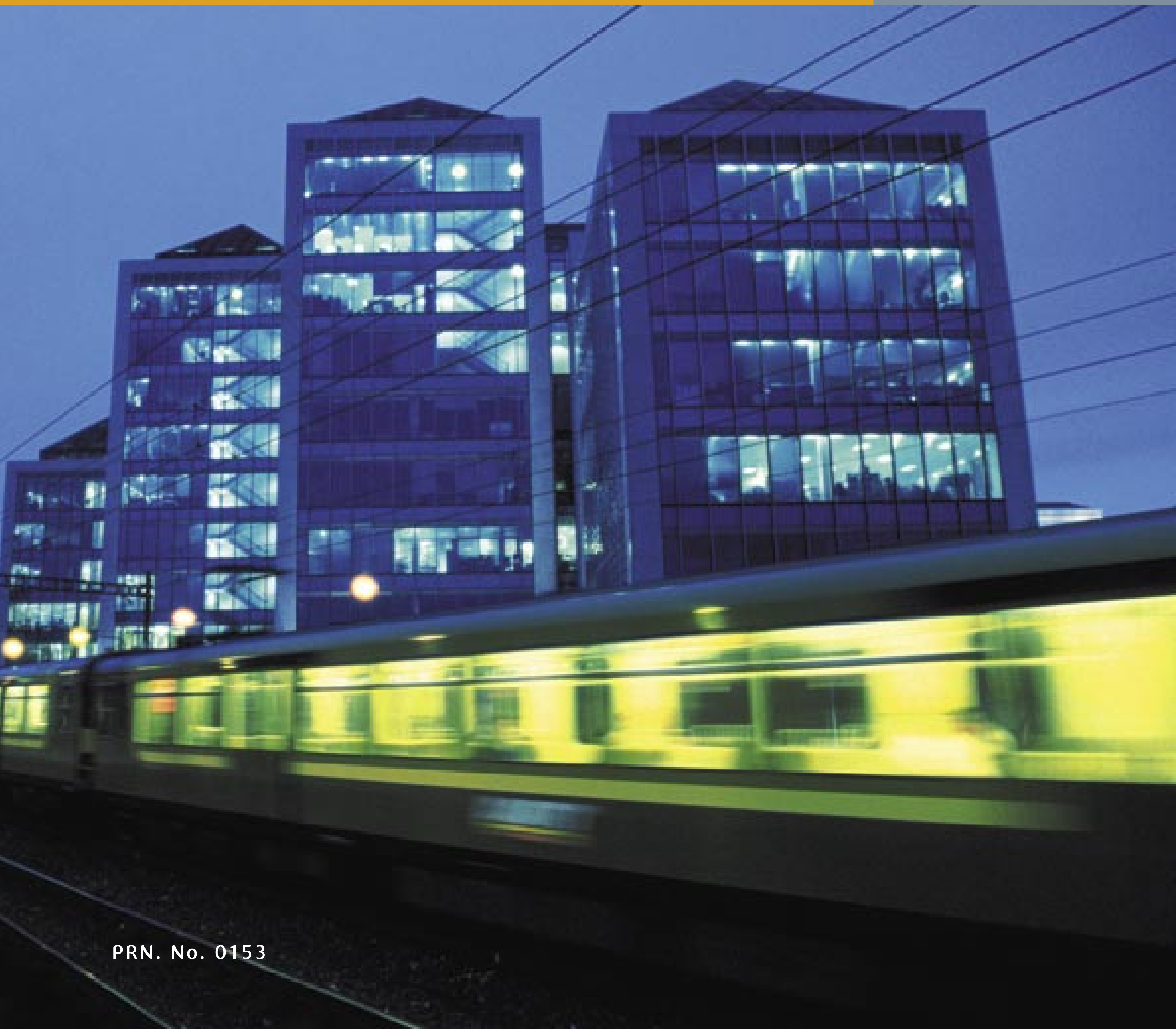
Iarnród Éireann

2004

ANNUAL REPORT AND FINANCIAL STATEMENTS 2004



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NATIONAL DEVELOPMENT PLAN

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.

Main Cover Photo: A DART train passing through Dublin City Centre – by the end of 2005, DART capacity will have doubled in just five years

Photographer: Gerry Grace **Design**: First Impression

Operations Review Summary

The past year for Iarnród Éireann was marked by continued progress in delivering the benefits of investment to customers.

After decades of underinvestment in every aspect of the rail service and network, the company has now come to the end of the 1999-2004 phase of investment, during which real improvements were delivered for DART and Commuter customers, and track, signalling, level crossings, stations and rail communications were updated on Intercity routes.

The second phase of investment, which will take place over the next four years, will see continued expansion of services for DART and Commuter customers, and dramatic improvements in quality and frequency of service for Intercity customers.

Iarnród Éireann has invested over €1.5 billion in rebuilding the railways since 1999, with Government and EU support for the investment programme delivering improvements in new trains, upgraded infrastructure and customer facilities.

There is continued growth in demand across Intercity, DART and Commuter services, with passenger numbers for 2004 estimated at 34.6 million journeys. It is estimated that passenger journeys were reduced by approximately 2.7 million (0.6 million in 2003) due to the ongoing weekend closures of DART services. The adjusted passenger journeys figure of 37.3 million for 2004 compares with adjusted passenger journeys of 36.2 million in 2003, an increase of 3.0% across DART, Commuter and Intercity Services.

Investment projects to provide rail customers with new trains, better facilities and improved customer service are continuing to be delivered on time and on or better than budget.

Financial Results

The surplus before exceptional items in 2004 amounted to €2.4 million compared to a surplus in 2003 of €0.7 million, an improvement of €1.7 million.

Included in the operating results are revenue losses estimated at approximately €4.6 million arising from the closure of DART services on many weekends during the year to facilitate the earliest possible completion of the DART upgrade project.

An overall net deficit of €16.7 million, after exceptional items of €19.1 million, was incurred in 2004, compared to a net deficit of €19.4 million in 2003, a betterment of €2.7 million.

Greater Dublin Commuter Services

In 2004, commuter customers experienced the full benefit of the new fleet of 80 commuter railcars, which entered service over the turn of the year. Additional capacity was provided for up to 12,000 more peak customers daily across the Maynooth, Drogheda and Kildare commuter services. This is essential to meet the growing demand from the expanding Dublin commuter belt.

DART Services

DART is already providing 50% more carriages on each train at peak time than it was in 2000. From a point where 4-carriage services operated at peak, DARTs are now operating as 6-carriage trains.

An €80 million order for 40 new DART carriages was delivered ahead of schedule in 2004. Currently undergoing testing, and being phased into service, the new carriages will bring the size of the DART fleet to 154.

Operations Review Summary

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

Renewal of track on Intercity radial lines

A major milestone in Iarnród Éireann's rail track renewal programme was reached in 2004, with the completion in December of the renewal of the last sections of track on the core radial network. This means that since 1999, over 420 miles of track has been upgraded from jointed track on timber sleepers to modern continuous welded rail on concrete sleepers. As well as safety benefits, this has yielded journey time improvements, and has seen track renewal completed on the routes from Dublin to Galway, Sligo, Tralee, Waterford, Westport, Ballina, Ennis and Rosslare.

In five years, Iarnród Éireann upgraded these lines to a greater extent than that done in the previous 100 years. A total of over €300 million has been invested in this renewal work.

New Trains for Intercity services

Having focused Intercity investment on track and infrastructure, new trains will begin to arrive for Intercity services in 2005, with 67 new carriages dedicated to the Cork/Dublin route currently under construction. A further fleet of 120 Intercity railcars has now been ordered for delivery in 2007/2008. This, the largest order of new trains ever placed by Iarnród Éireann, will allow the updating of services on the Intercity network including the Kerry, Galway, Westport and Waterford lines.

Major investment projects - on time and on budget

Iarnród Éireann's strong record of delivering major projects on time and on or better than budget continued in 2004.

The total value of Capital Projects completed during 2004 and Capital Projects in progress at end 2004 amounted to €1.5 billion. Capital Projects which were completed at a cost of €273 million in 2004 achieved savings of approximately €16 million against the approved expenditure.

The Capital programme included major Infrastructure and Network Development Projects such as : Heuston Station Re-Development, DART Upgrade, Resignalling of Radial Routes, Rolling Stock Replacement Programme and the Safety and Renewals Programme.

Safety

The highest priority continues to be given to Safety Management within the organisation. Together with the investment in higher safety specification for new rolling stock and infrastructure, greater emphasis was placed on safety training and employee safety awareness.

There was no passenger or staff fatality during 2004.

Investing in facilities for customer convenience

Customer facilities continued to be improved during the year through the use of technology to meet customer needs with the introduction of DARTXT, Seat reservations and Automatic ticket vending machines.

Accessibility

During the year, further significant progress was made on making our services accessible to all our customers. In addition, a Users Group was established, representative of mobility and visually impaired rail users, to monitor and advise on accessibility improvements.

Directors and Other Information

Directors at 6th April, 2005

Chairman	Dr. J.J. Lynch
Directors	Mr. P. Cullen, Mr. G. Duggan, Ms. A.M. Mannix, Mr. W. McCamley, Dr. P. Prescott
Chief Executive	Mr. J. Meagher
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

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

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.

Results for the Year and State of Affairs as at 31st December, 2004

The results for the year are set out in the profit and loss account on page 13.

Review of the Development of Business Operations and Future Plans

The information required by section 13 of the Companies (Amendment) Act, 1986 is contained in the Operations Review.

Internal Control

The board of Iarnród Éireann has appointed an Audit Review Group to review the annual accounts, internal control and compliance matters, the effectiveness of internal and external audit and risk management. The board has also appointed advisory groups to review project management of the large infrastructure and rolling stock projects which are funded by the Exchequer and the EU to ensure that the projects are delivered on time and on budget. The board has also appointed a number of other advisory groups to assist it. These comprise a Safety Advisory Group and an Operations Advisory Group.

Code of Practice for the Governance of State Bodies

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

Going Concern

The accounts have been prepared on the going concern basis and the directors report that they have satisfied themselves that the company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the directors have reviewed the budget for 2005, the medium term plans and the decision by the Board of Córas Iompair Éireann to make sufficient financial resources available to fund the borrowing requirements of Iarnród Éireann for 2005 and 2006.

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.

Report of the Directors

Safety, Health and Welfare at Work Act, 1989

The health and safety of customers and employees is of paramount importance to the board. The Safety Advisory Group monitors safety performance against formal annual safety plans. It actively supports the Safety and Renewals Programme and encourages the widest possible involvement in safety promotion and accident prevention.

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.

Directors and Secretary

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, 2004 are as set out below. Except where indicated they served as directors for the whole year.

Dr. J.J. Lynch	Chairman (Re-appointed 29th April, 2004 and 28th March, 2005)
Mr. J. Meagher	Managing Director (Re-appointed 1st March, 2004 retired 28th February, 2005)
Mr. P. Cullen	
Mr. G. Duggan	(Retired 8th December, 2003, re-appointed 9th February, 2004 and 9th February, 2005)
Mr. P. Ellis	(Re-appointed 1st June, 2004 deceased 26th July, 2004)
Ms. A.M. Mannix	
Mr. W. McCamley	
Dr. P. Prescott	(Re-appointed 1st May, 2004)

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 contracts or arrangements entered into during the year in which a director was materially interested in relation to the Group's business. The Company Secretary holds one ordinary share as nominee of the Board of Córas Iompair Éireann.

On the 28th September, 2004, Mr. R. O'Farrell resigned as Company Secretary and Ms. G. Finucane was appointed.

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. G. Duggan, Director
6th April, 2005.

Statement of Directors' Responsibilities

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 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 2003. 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 11 to 32 and the accounting policies set out in the statement of accounting policies on pages 11 to 12.

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 accounting standards generally accepted in Ireland are set out on page 8 in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and auditing standards issued by the Auditing Practices Board applicable in Ireland. This report, including the opinion, has been prepared for and only for the 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 and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2003. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

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

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

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

Report of the Auditors

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December, 2004 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 2003.

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 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 6 to 7 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on page 14 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, 2004 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors,
Dublin

6th April, 2005.

(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 2003. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements 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 with creditors. Finance charges are charged to the profit and loss account over the primary period of the lease.

(ii) Operating leases

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

Principal Accounting Policies

(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

	Note	Total 2004 €000	Exceptional Operating Items 2004 €000	Continuing Operations before Exceptional Items 2004 €000	Total 2003 €000	Exceptional Operating Items 2003 €000	Continuing Operations before Exceptional Items 2003 €000
			Note 5			*Note 5*	
Revenue		**215,481**	-	**215,481**	213,227	-	213,227
Costs							
Payroll and related costs	*3*	**(247,949)**	**(17,447)**	**(230,502)**	(242,962)	(19,258)	(223,704)
Materials and services	*4*	**(132,475)**	-	**(132,475)**	(139,537)	-	(139,537)
Depreciation less amortisation of capital grants	*6*	**(27,813)**	**(1,727)**	**(26,086)**	(27,827)	(841)	(26,986)
Total operating costs		**(408,237)**	**(19,174)**	**(389,063)**	(410,326)	(20,099)	(390,227)
Profit on disposal of tangible assets	*7*	**132**	-	**132**	207	-	207
Deficit before interest and State grants		**(192,624)**	**(19,174)**	**(173,450)**	(196,892)	(20,099)	(176,793)
Interest payable							
- operational	*8*	**(3,886)**	-	**(3,886)**	(5,272)	-	(5,272)
- railway infrastructure	*8*	**(2,212)**	-	**(2,212)**	(3,016)	-	(3,016)
Total interest		**(6,098)**	-	**(6,098)**	(8,288)	-	(8,288)
Deficit for the year before State grants		**(198,722)**	**(19,174)**	**(179,548)**	(205,180)	(20,099)	(185,081)
State grants-subvention	*9*	**171,420**	-	**171,420**	168,257	-	168,257
State grants-railway safety grant	*9*	**10,557**	-	**10,557**	17,496	-	17,496
Deficit for the year after State grants	*2(A)*	**(16,745)**	**(19,174)**	**2,429**	(19,427)	(20,099)	672
Accumulated deficit at beginning of the year		**(85,839)**			(66,412)		
Accumulated deficit at end of the year		**(102,584)**			(85,839)		

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.G.Duggan, Director

Balance Sheet

As at 31st December	Notes	2004	2003
		€000	€000
Fixed assets			
Tangible fixed assets	10	917,304	776,686
Financial assets	11	20	20
		917,324	776,706
Current assets			
Stocks	12	32,676	38,273
Debtors	13	177,726	162,626
Cash at bank and in hand		151	97
		210,553	200,996
Creditors (amounts falling due within one year)	14	(438,643)	(300,280)
Net current liabilities		(228,090)	(99,284)
Total assets less current liabilities		689,234	677,422
Creditors (amounts falling due after more than one year)	15	(44,496)	(64,105)
Provisions for liabilities and charges	18	(60,810)	(56,063)
Deferred income	19	(556,622)	(513,203)
		27,306	44,051
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		(102,584)	(85,839)
Shareholders funds	22	27,306	44,051

On behalf of the board

Dr. J.J. Lynch, Chairman

Mr.G.Duggan, Director

Cash Flow Statement

Year ended 31st December	Notes	2004	2003
		€000	€000
Net cash inflow from operating activities	23(a)	**45,362**	60,548
Servicing of finance			
Interest paid	8	**(2,977)**	(4,968)
Interest element of finance lease rentals	8	**(3,121)**	(3,320)
State grant - DART Interest	9	**900**	1,581
Net cash outflow from servicing of finance		**(5,198)**	(6,707)
Investing activities			
Purchase of tangible assets		**(263,670)**	(309,848)
Sale of tangible assets		**132**	302
Capital grants		**133,739**	335,473
Net cash (outflow)/inflow from investing activities		**(129,799)**	25,927
Net cash (outflow)/inflow before management of liquid resources and financing	23(b)	**(89,635)**	79,768
Management of liquid resources	23(b)	**80,751**	(62,202)
Financing			
Capital element of finance lease rentals		**(4,302)**	(4,150)
Net cash outflow from Financing	23(b)	**(4,302)**	(4,150)
(Decrease)/increase in cash in the year	23(b)	**(13,186)**	13,416
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year		**(13,186)**	13,416
Cash (outflow)/inflow from holding company balance, lease financing and NDP Investment projects funded by CIÉ		**(76,449)**	66,352
Movement in net debt in the year		**(89,635)**	79,768
Net debt at 1st January		**(135,016)**	(214,784)
Net debt at 31st December		**(224,651)**	(135,016)

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 profitability by 2005.

The core aspects of this plan included a reduction in staff numbers, rationalisation of rail freight depots and tight control of non-labour costs. Progress was made in 2004 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 2005.

As at 31st December, 2004, the company had net debt of €224.7 million of which €94.7 million is in respect of NDP Investment projects funded by CIÉ (See note 23 (B))

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 2005 and 2006. 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

	2004 €000	2003 €000
Summary		
Operating deficit before operating interest payable, State grants and exceptional items		
Mainline rail	**(54,418)**	(55,299)
Suburban rail	**(23,210)**	(23,677)
Total Rail operations	**(77,628)**	(78,976)
Subvention and grants for Rail operations	**79,176**	79,870
Operating surplus/(deficit) before operating interest payable and exceptional items		
Rail Operations	**1,548**	894
Infrastructure Maintenance	**3,301**	4,836
Road freight	**1,195**	1,130
Rosslare Europort	**2,648**	2,570
Catering services	**(297)**	(677)
Operating surplus for year before operating interest payable and exceptional items	**8,395**	8,753
Interest	**(6,098)**	(8,288)
Profit on disposal of tangible assets	**132**	207
Operating surplus before exceptional items	**2,429**	672
Exceptional operating costs *(note 5)*	**(19,174)**	(20,099)
Deficit for the year	**(16,745)**	(19,427)

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

Notes to the Financial Statements

	2004 €000	2003 €000
2 DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)		
(B) Mainline rail division		
Revenue	**126,119**	121,437
Expenditure		
Maintenance of rolling stock	**(44,879)**	(43,647)
Fuel	**(13,426)**	(13,413)
Operating and other expenses	**(115,199)**	(112,452)
Operating depreciation	**(19,212)**	(17,824)
Amortisation of capital grants	**12,179**	10,600
Total expenditure	**(180,537)**	(176,736)
Operating deficit before operating interest payable and State grants	**(54,418)**	(55,299)
Interest payable	**(2,685)**	(3,537)
Deficit for the year before State grants	**(57,103)**	(58,836)
(C) Suburban rail division		
Revenue	**37,554**	37,294
Expenditure		
Maintenance of rolling stock	**(12,652)**	(12,985)
Fuel (including electricity for traction)	**(4,280)**	(4,044)
Operating and other expenses	**(36,693)**	(33,789)
Operating depreciation	**(17,689)**	(16,750)
Amortisation of capital grants	**10,550**	6,597
Total expenditure	**(60,764)**	(60,971)
Operating deficit before operating interest payable and State grants	**(23,210)**	(23,677)
Interest payable	**(1,130)**	(1,666)
Deficit for the year before State grants	**(24,340)**	(25,343)
Included in the Maintenance of rolling stock figures in Mainline rail note 2(B) and Suburban rail note 2(C) is a Depreciation charge of	**2,223**	1,664
Amortisation of grants	**1,195**	686

Notes to the Financial Statements

2 DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)

(D) Railway infrastructure maintenance

In compliance with EU Council Directive 91/440 the costs of the railway infrastructure division have been computed as follows:

	2004 €000	2003 €000
Maintenance of railway lines and works	**(62,980)**	(69,119)
Renewal of railway lines and works	**(55,696)**	(113,622)
Operating (signalling) and other expenses	**(27,125)**	(25,008)
Depreciation *(note 10 (d))*	**(17,745)**	(12,902)
Amortisation of capital grants	**8,350**	5,982
Total expenditure	**(155,196)**	(214,669)
Operating deficit before operating interest payable and State grants	**(155,196)**	(214,669)
State grants, EU and Exchequer Funding	**158,497**	219,505
Surplus for the year before interest payable	**3,301**	4,836
Interest payable *(note 8)*	**(2,212)**	(3,016)
Surplus for the year	**1,089**	1,820
Apportionment of Costs (incl. Interest payable)		
Mainline rail division	**139,621**	188,515
Suburban rail division	**17,787**	29,170
Total costs infrastructure maintenance	**157,408**	217,685

(E) Road freight division

	2004 €000	2003 €000
Revenue		
Goods services	**31,846**	32,309
Miscellaneous	**50**	62
Total revenue	**31,896**	32,371
Operating costs		
Maintenance of vehicles and equipment	**(1,401)**	(1,577)
Fuel	**(418)**	(428)
Road tax and licences	**(75)**	(71)
Operating and other expenses	**(28,517)**	(28,766)
Operating depreciation	**(290)**	(399)
Total expenditure	**(30,701)**	(31,241)
Net surplus for the year	**1,195**	1,130

Notes to the Financial Statements

2 DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)

(F) Rosslare Europort division

	2004 €000	2003 €000
Revenue		
Harbour services	**10,270**	10,080
Operating costs		
Maintenance, operating and other expenses	**(6,515)**	(6,412)
Operating depreciation	**(1,867)**	(1,856)
Amortisation of capital grants	**760**	758
Total expenditure	**(7,622)**	(7,510)
Operating surplus before interest payable	**2,648**	2,570
Interest payable	**(71)**	(69)
Net surplus for the year	**2,577**	2,501

(G) Catering services division

	2004 €000	2003 €000
Revenue		
Ground and train catering	**9,642**	12,045
Operating Costs		
Maintenance of buildings, cars and equipment	**(61)**	(106)
Cost of sales	**(3,388)**	(4,313)
Other direct expenses	**(5,438)**	(6,137)
Depreciation	**(125)**	(214)
Other expenditure	**(927)**	(1,952)
Total expenditure	**(9,939)**	(12,722)
Net deficit for the year	**(297)**	(677)

(H) State grants, EU and Exchequer Funding

	2004 €000	2003 €000
Allocated to:		
Rail operations	**79,176**	79,870
Infrastructure maintenance	**158,497**	219,505
	237,673	299,375
Sources:		
Exchequer subvention	**171,420**	168,257
Exchequer safety and other grants	**10,557**	17,496
Exchequer funded renewals	**47,291**	91,873
EU funded renewals	**8,405**	21,749
	237,673	299,375

Notes to the Financial Statements

2 DIVISIONAL ANALYSIS OF PROFIT AND LOSS ACCOUNT (continued)

(I) Net surplus/(deficit) by activity before exceptional items

	Commercial €000	Social €000	Total €000
2004			
Revenue	51,808	163,673	215,481
Costs	(48,322)	(402,403)	(450,725)
State grants, EU and Exchequer funding	-	237,673	237,673
Surplus/(deficit) for the year after State grants	3,486	(1,057)	2,429
2003 Net result	2,954	(2,282)	672

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

3 PAYROLL AND RELATED COSTS

	2004 €000	2003 €000
Staff costs		
Wages and salaries	228,224	228,651
Social welfare costs	19,617	19,185
Other pension costs	17,463	13,887
	265,304	261,723
Own work capitalised, renewals and engineering work for group companies	(35,179)	(38,379)
Net staff costs	230,125	223,344
Directors' remuneration		
- services as directors	30	20
- other emoluments	347	340
Total directors' remuneration and emoluments	377	360
Total payroll and related costs	230,502	223,704

	Staff Numbers 2004 Average	2003 Average
The average number of employees by activity, was		
- Railway	3,541	3,378
- Infrastructure	1,318	1,695
- Road freight	130	151
- Rosslare Europort	95	95
- Catering	182	261
Sub-total	5,266	5,580
- Projects	324	253
Overall total	5,590	5,833

Notes to the Financial Statements

		2004 €000	2003 €000
4	MATERIALS AND SERVICES		
	The deficit for the year before interest and State grants is arrived after charging the following under the materials and services heading.		
	Operating and other costs	**99,172**	108,343
	Fuel and electric traction	**15,680**	15,052
	Third party and employer's liability claims	**9,502**	8,449
	Rates	**2,925**	2,830
	Operating lease rentals	**4,981**	4,712
	Road tax and licences	**133**	81
	Auditors remuneration	**82**	70
		132,475	139,537
5	EXCEPTIONAL OPERATING COSTS		
	Business restructuring	**17,447**	19,258
	Accelerated depreciation	**1,727**	841
		19,174	20,099

As part of the 2003 Financial Plan the company introduced a voluntary severance and early retirement programme. The estimated cost in 2004, including severance payments and other costs associated with the programme is €19.2 million.

		2004 €000	2003 €000
6	DEPRECIATION		
	Depreciation **	**61,533**	52,802
	Amortisation of capital grants** *(note 19)*	**(33,720)**	(24,975)
	Total depreciation	**27,813**	27,827

**Includes €2.478 million of depreciation and €0.751 million of amortisation of capital grants credited as an exceptional item.

		2004 €000	2003 €000
7	PROFIT ON THE DISPOSAL OF TANGIBLE ASSETS		
	Profit on disposal of Tangible assets	**132**	207
8	INTEREST PAYABLE		
	On loan from holding company	**2,977**	4,968
	On finance leases	**3,121**	3,320
		6,098	8,288
	Interest apportioned:		
	Operational costs	**3,886**	5,272
	Railway infrastructure costs *(note 2 (d))*	**2,212**	3,016
		6,098	8,288

Notes to the Financial Statements

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 €317.5 million received in 2004 are given in the following table, showing the relevant provision of EU regulations. A sum of €20.2 million in relation to grants received on buildings was passed back to the holding company.

	EU Regulation Number		
	1191/69	1107/70 (Article 4)	Total
	€000	€000	€000
Revenue related			
Mainline rail			
Operation of passenger services	135,298	-	135,298
Residual deficit - State grants	-	74	74
	135,298	74	135,372
Suburban rail			
Operation of passenger services	11,967	-	11,967
Sub total	147,265	74	147,339

	EU Regulation Number		
	1192/69	1107/70 (Article 3.1 [b])	Total
	€000	€000	€000
Expenditure related			
Mainline rail			
Normalisation of accounts			
- Class III (pensions)	12,843	-	12,843
- Class IV (level crossings)	6,424	-	6,424
- Infrastructure grant (freight)	-	1,419	1,419
	19,267	1,419	20,686
Suburban rail			
Normalisation of accounts			
- Class III (pensions)	1,995	-	1,995
- Class IV (level crossings)	500	-	500
	2,495	-	2,495
Sub total	21,762	1,419	23,181
Total			170,520
Add State grant for DART interest - EU Regulation 1191/69			900
Sub total State subvention			171,420
Add State grant for NDP			146,108
Total State grants received			317,528

The total funding received was applied as follows:		
Profit & loss account		
- Subvention		171,420
- Railway Safety Revenue Grant	10,557	
Credit against the renewals of railway lines and works *(note10(a))*	47,291	
Deferred income *(note 19)*	68,107	
Transferred to CIÉ for Land & Buildings	20,153	
State grant for NDP		146,108
Total		317,528

Notes to the Financial Statements

10 TANGIBLE FIXED ASSETS

	1st Jan 2004 €000	Reclass-ifications €000	Additions €000	Scrappings & Disposals €000	31st Dec 2004 €000
Cost					
Railway lines and works	817,426	-	84,080	-	901,506
Railway rolling stock	651,058	-	100,314	(759)	750,613
Road freight vehicles	7,035	-	-	(207)	6,828
Plant and machinery	385,165	199	63,753	-	449,117
Catering equipment	1,130	-	-	-	1,130
Docks, harbours and wharves	43,115	-	822	-	43,937
Land and buildings	-	-	708	-	708
Capital work in progress	199	(199)	8,170	-	8,170
Sub total	1,905,128	-	257,847	(966)	2,162,009
Funding received for railway lines and works	(588,912)	-	(55,696)	-	(644,608)
Total	1,316,216	-	202,151	(966)	1,517,401

	1st Jan 2004 €000	Reclass-ifications €000	Charge for Year €000	Scrappings & Disposals €000	31st Dec 2004 €000
Depreciation					
Railway lines and works	762,762	-	58,904	-	821,666
Railway rolling stock	212,509	-	33,864	(759)	245,614
Road freight vehicles	6,178	-	288	(207)	6,259
Plant and machinery	135,585	-	23,242	-	158,827
Catering equipment	1,006	-	58	-	1,064
Docks, harbours and wharves	10,402	-	873	-	11,275
Land and buildings	-	-	-	-	-
Sub total	1,128,442	-	117,229	(966)	1,244,705
Funding received for railway lines and works	(588,912)	-	(55,696)	-	(644,608)
Total	539,530	-	61,533	(966)	600,097

	2004 €000	2003 €000
Net book amounts		
Railway lines and works	79,840	54,664
Railway rolling stock	504,999	438,549
Road freight vehicles	569	857
Plant and machinery	290,290	249,580
Catering equipment	66	124
Docks, harbours and wharves	32,662	32,713
Land and buildings	708	-
Capital work in progress	8,170	199
Total	917,304	776,686

Notes to the Financial Statements

	2004 €000	2003 €000

10 TANGIBLE FIXED ASSETS (continued)

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

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

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

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

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

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

	2004 €000	2003 €000
Cost	**606,970**	523,980
Accumulated depreciation	**(286,792)**	(269,047)
Net book value	**320,178**	254,933
Depreciation for year *(note 2(d))*	**(17,745)**	(12,902)

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

	2004 €000	2003 €000
Railway rolling stock	**158,147**	113,327

(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:

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

Notes to the Financial Statements

	2004 €000	2003 €000
11 FINANCIAL ASSETS		
Trade investments - listed shares		
Cost or valuation at 1st January	**63**	63
Provision for impairment in value at 31st December	**(43)**	(43)
Net book amounts at 31st December	**20**	20
Market value at 31st December	**49**	49

12 STOCKS

	2004 €000	2003 €000
Rolling stock, spare parts and maintenance materials	**17,350**	16,462
Infrastructure stocks	**11,319**	17,511
Fuel, lubricants and other sundry stocks	**4,007**	4,300
	32,676	38,273

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

13 DEBTORS

	2004 €000	2003 €000
Trade debtors	**9,246**	11,419
Amounts owed by holding and fellow subsidiary companies	**107,751**	93,835
EU and State grants receivable	**51,401**	50,269
Other debtors and accrued income	**9,328**	7,103
	177,726	162,626

14 CREDITORS (amounts falling due within one year)

	2004 €000	2003 €000
Bank overdraft	**23,463**	10,223
Trade creditors	**61,173**	55,658
Loan from holding company *(note 16)*	**165,066**	150,045
Finance lease obligations *(note 17)*	**4,861**	4,575
Income tax deducted under PAYE	**4,354**	3,603
Pay related social insurance	**3,148**	2,617
Value added tax and other taxes	**1,177**	4,966
Other creditors	**2,466**	3,022
NDP Investment projects funded by CIÉ	**94,667**	-
Accruals	**3,251**	4,353
Restructuring provision *(note 18)*	**24,296**	21,164
Third party and employer's liability claims *(note 18)*	**4,973**	5,191
Deferred income *(note 19)*	**45,748**	34,863
	438,643	300,280
Creditors for taxation and social welfare included above	**8,679**	11,186

Notes to the Financial Statements

		2004 €000	2003 €000
15	CREDITORS (amounts falling due after more than one year)		
	Loan from holding company *(note 16)*	-	15,021
	Finance lease obligations *(note 17)*	**44,496**	49,084
		44,496	64,105
16	LOAN FROM HOLDING COMPANY		
	This loan is repayable as follows:		
	Within one year *(note 14)*	**165,066**	150,045
	Between one and two years *(note 15)*	-	13,040
	Between two and five years *(note 15)*	-	1,981
	After five years	-	-
		-	15,021
		165,066	165,066

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

The presentation of the maturity analysis of loans and other debt above complies with the provisions of FRS 4 Capital Instruments. The standard requires that the maturity of debt should be determined by reference to the earliest date on which the lender can require repayment. Included in amounts repayable within one year are amounts of €76,580,000 (2003 - €76,689,577) relating to Irish Commercial Paper which are backed by committed medium term facilities which effectively extend the maturity of these instruments.

Notes to the Financial Statements

	2004 €000	2003 €000
17 LEASE OBLIGATIONS		
(A) Finance leases		
Net obligations under finance leases fall due as follows:		
Within one year *(note 14)*	**4,861**	4,575
Between one and five years *(note 15)*	**21,074**	21,048
After five years *(note 15)*	**23,422**	28,036
	44,496	49,084
	49,357	53,659
(B) Operating leases		
Commitments under non-cancellable operating leases payable in the coming year expire as follows:		
Within one year	**1,844**	1,878
Between one and five years	**2,583**	2,241
	4,427	4,119

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring Provision €000	Third Party and Employer's Liability Claims €000	Total €000
Balance at 1st January, 2004	**21,164**	**61,254**	**82,418**
Utilised during the year	**(14,315)**	**(4,973)**	**(19,288)**
Transfer from profit and loss account			
- Exceptional item	**17,447**	**-**	**17,447**
- Other	**-**	**9,502**	**9,502**
	17,447	**9,502**	**26,949**
Balance carried forward	**24,296**	**65,783**	**90,079**
Less amount classified as current liability *(note 14)*	**(24,296)**	**(4,973)**	**(29,269)**
Balance at 31st December, 2004	**-**	**60,810**	**60,810**

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

Notes to the Financial Statements

18 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(A) External Insurance Cover

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

(i) Third Party Liability in excess of €5,000,000 on any one occurrence or series of occurrences arising out of any one rail transport event, except in the case of claims subject to United States jurisdiction where the excess is US$3,300,000.

(ii) Third Party Liability in excess of €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.

(iii) Third Party Liability for the Group 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.

(iv) Rail and road transport liabilities in excess of a self insured retention of €11,000,000 in aggregate in the twelve month period, April 2004 to March 2005, subject to an overall Group self insured retention of €27,000,000.

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

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

(vii) 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 company. The estimated cost of claims includes expenses to be incurred externally in managing claims but excludes the internal overhead of claims management fees. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

Notes to the Financial Statements

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 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 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 2004 €000	Received and Receivable €000	Amortised to Profit & Loss Account €000	31st Dec 2004 €000
Capital Grants				
Land and buildings	-	239	-	239
Railway lines and works	22,681	4,325	(1,230)	25,776
Railway rolling stock	307,651	37,791	(13,464)	331,978
Plant and machinery	162,304	45,669	(10,845)	197,128
Docks, harbours and wharves	14,857	-	(284)	14,573
Total capital grants	507,493	88,024	(25,823)	569,694
State grants – Railway Safety Investment Programme	39,313	-	(7,862)	31,451
Other deferred income	1,260	-	(35)	1,225
Total	548,066	88,024	(33,720)	602,370

	2004 €000	2003 €000
Shown as:		
Deferred income - amounts falling due within one year *(note 14)*	**45,748**	34,863
Deferred income - amounts falling due after more than one year	**556,622**	513,203
	602,370	548,066

The grants received under the Railway Safety Investment Programme (1999 – 2003) will be released to the profit and loss in accordance with the Railway Safety Investment Programme. Grants received and receivable in 2004 were Exchequer €68,106,678, EU €19,794,339 and DTO €123,233.

Notes to the Financial Statements

		2004 €000	2003 €000
20	SHARE CAPITAL		
	Authorised:		
	Ordinary shares of €1.27 each	**95,230**	95,230
	Allotted, called up and fully paid		
	Ordinary shares of €1.27 each	**29,204**	29,204
21	ASSET REPLACEMENT RESERVE		
	Balance at 31st December	**100,686**	100,686

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

		2004 €000	2003 €000
22	RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS		
	Surplus for the year after State grants	**2,429**	672
	Exceptional operating costs *(note 5)*	**(19,174)**	(20,099)
	Opening equity shareholders' fund	**44,051**	63,478
	Closing equity shareholders' funds	**27,306**	44,051
23	CASH FLOW STATEMENT		
	(A) Reconciliation of deficit to net cash inflow from operating activities		
	Deficit before State grants and servicing of finance	**(192,624)**	(196,892)
	State grants other than that applied to DART interest and renewals *(note 9)*	**181,077**	184,172
	Deficit for the year before servicing of finance	**(11,547)**	(12,720)
	Profit on disposal of tangible assets	**(132)**	(207)
	Depreciation	**61,533**	52,802
	Amortisation of capital grants *(note19)*	**(33,720)**	(24,975)
	Decrease in stocks	**5,597**	4,303
	Decrease in EU revenue grants	**8,848**	15,371
	(Increase)/decrease in debtors	**(52)**	293
	Increase in creditors and provisions	**14,835**	25,681
	Net cash inflow from operating activities	**45,362**	60,548

(B) Analysis of net debt	At 1st Jan. 2004 €000	Cash Flow €000	At 31st Dec. 2004 €000
Cash in hand	97	54	151
Bank overdraft	(10,223)	(13,240)	(23,463)
Loans	(165,066)	-	(165,066)
Finance leases	(53,659)	4,302	(49,357)
Intergroup balance	93,835	13,916	107,751
NDP Investment projects funded by CIÉ	-	(94,667)	(94,667)
	(135,016)	(89,635)	(224,651)

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

Notes to the Financial Statements

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.

25 CAPITAL COMMITMENTS

	€000 Contracted for	€000 Authorised by the directors but not contracted for
2004		
Within one year	**148,755**	**92,710**
From two to five years	**233,554**	**143,227**
	382,309	**235,937**
Of which funding amounts to:	**376,773**	**207,115**
2003		
Total capital commitments	166,252	215,345

26 CONTINGENT LIABILITIES

(A) Pending Litigation

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

(B) Finance Leases

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

(C) Grants Receivable

All grant applications made to the EU are subject to a stringent audit process. As part of the process, an Audit Report in respect of one project, has raised some queries which were not resolved at the Balance Sheet date and are not expected to be finally resolved before late 2005.

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

Notes to the Financial Statements

27 RELATED PARTY TRANSACTIONS

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

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

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

28 MEMBERSHIP OF CÓRAS IOMPAIR ÉIREANN GROUP

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

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

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

29 APPROVAL OF FINANCIAL STATEMENTS

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

Operations Review

Financial Results

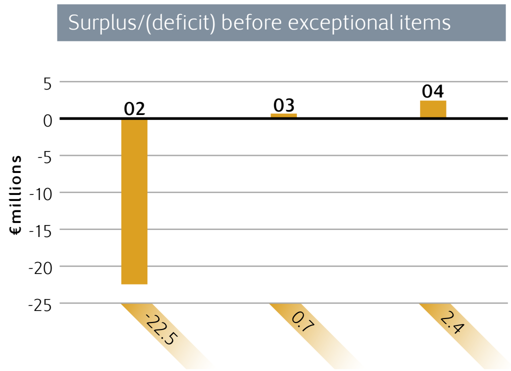
The surplus before exceptional items in 2004 amounted to €2.4 million compared to a surplus in 2003 of €0.7 million, an improvement of €1.7 million. Included in the 2004 operating results are additional pension funding costs of €5.2 million and revenue losses, estimated by management at approximately €4.6 million arising from the closure of DART services on many weekends during the year to facilitate earliest possible completion of the DART upgrade project. The corresponding amounts in 2003 were €0.9 million for estimated revenue losses and €4.0 million for additional pension funding costs.

The overall net deficit is €16.7 million, after exceptional items of €19.1 million. This compares with a net deficit of €19.4 million, after exceptional items of €20.1 million, in 2003; an improvement of €2.7 million. The principle exceptional items relate to voluntary severance payments under the cost reduction programme and some additional depreciation charges associated with discontinued operations.

Revenue for the year amounted to €215.5 million compared to €213.2 million in 2003 while total costs, including exceptional items of €19.1 million, amounted to €414.3 million compared to €418.6 million in 2003.

Customer service – a priority for meeting the needs of our growing numbers of customers

The Exchequer Subvention payment amounted to €171.4 million of which €100.1 million is in respect of Infrastructure maintenance and €71.3 million relates to payment for social obligations and is an increase of 1.8% over the 2003 level. Iarnród Éireann and the Department of Transport have agreed a Memorandum of Understanding on service levels and performance targets and payment of subvention is now related to achievement of these targets.



Rail Passenger Business

Revenue

The rail passenger business recorded revenue of €141.0 million in 2004 compared to revenue of €136.8 million in 2003. This increase of 3% is curtailed as a result of the ongoing weekend closures during the DART upgrade project. Passenger revenue is estimated by management to have increased by 5.6% when grossed up for the DART project closures.

Expenditure

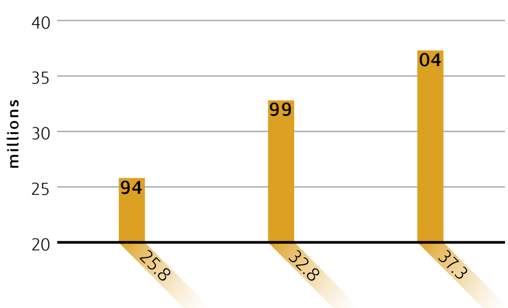
Control of expenditure, while still ensuring quality of service, remains a priority for the passenger business. Total expenditure of €213.7 million was incurred in the Rail Passenger business during 2004. This represents an increase of €8.1 million (4%) over 2003. This increase included some one-off items and the underlying rate of increase is 2.6% when they are excluded.

Operations Review

Passenger Journeys

The National Rail Investment Programme, which is part of the Government's National Development Plan 2000-2006, is continuing to show positive results. There is continued growth in demand across Intercity, DART and Commuter services, with passenger numbers for 2004 estimated by management at 34.6 million journeys. It is estimated that passenger journeys were reduced by approximately 2.7 million (0.6 million in 2003) due to the ongoing weekend closures of DART services. The adjusted passenger journeys figure of 37.3 million for 2004 compares with adjusted passenger journeys of 36.2 million in 2003, an increase of 3.0% across DART, Commuter and Intercity Services.

Passenger journeys (2004 adjusted for DART Upgrade)



Infrastructure

Infrastructure maintenance benefited from consistently focused investment in recent years and expenditure reduced by €6.1 million to €63.0 million in 2004. The result includes additional depreciation charges of €2.4 million of which €1.0 million relates to a one-off adjustment in respect of signalling equipment. The 2004 result also includes significantly higher payroll costs for gatekeepers as a result of new arrangements to reduce working hours. Infrastructure recorded an operating surplus, after subvention and before exceptional items, of €1.1 million for 2004 compared to an operating surplus of €1.8 million in 2003.

Freight

Freight incurred an operating deficit of €9.0 million in 2004 and while this represents a €5.3 million improvement compared to 2003, significant rationalisation is required to eliminate loss-making activities.

The immediate objective of Iarnród Éireann Freight is to return the business to profitability. The major issue for the Freight division is the unprofitability of the Unit Load Container business, which is only 10% of the business but 70% of the deficit. Significant depot costs together with ever increasing road shunt costs continue to be a very heavy burden on the container business. In recent years market pressures, including major improvements in the road infrastructure, have had a dramatic impact on volumes carried. The cost base of the business has been significantly reduced during the last 12 months and this process is ongoing. This has led to some improvement in the trading position but it is not sustainable to continue to provide a unit load service and absorb the substantial losses involved. Further reshaping of this business in 2005 is critical to eliminating the operating deficit.

Rosslare Europort

Iarnród Éireann is the Port Authority for Rosslare Europort, and the port once again returned a healthy profit, despite some difficulties experienced by major customers during the year.

Rosslare Europort achieved an operating surplus of €2.6 million in 2004 compared with €2.5 million in 2003. Revenues of €10.3 million, an increase of 1.9% over 2003, were achieved due to a good performance in the roll-on roll-off traffic that more than offset weakness on the passenger business.

P&O Ferries ceased operations on the Cherbourg route from January 2005. However a new operator, Celtic Link, has been secured to operate on the route, which should protect against a significant revenue loss.

Operations Review

From 2005 Irish Ferries will now perform all work related to securing of vehicles on board their ferries with a subsequent loss of revenue to Iarnród Éireann. Appropriate expenditure reductions have been targeted to offset this loss of revenue.

An investment of €5.6 million to ensure the continuing operational safety of Berths 1 and 2 is in progress and is scheduled to be completed by year end. The International Ship & Port Facility Security Code 2002 (ISPS) was given effect under Irish Law in 2004. Arrangements are in place in the port to ensure compliance with the code.

Catering

Network Catering reported a deficit of €0.3 million for 2004 compared with a deficit of €0.7 million in 2003, an improvement of €0.4 million. Further progress was achieved during the year in withdrawing from non-core ground catering operations.

Renewal of track on Intercity radial lines

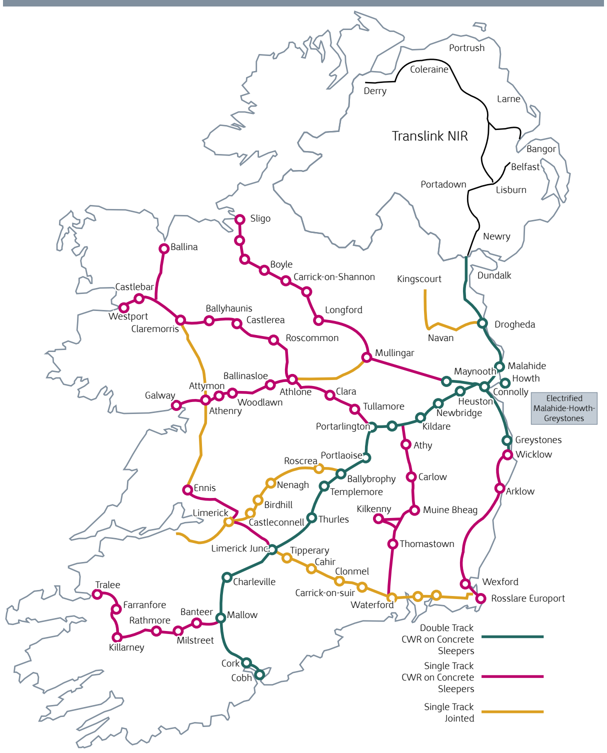
A major milestone in Iarnród Éireann's rail track renewal programme was reached in 2004, with the completion in December of the renewal of the last sections on track on the core radial network. This means that since 1999, over 420 miles of track have been upgraded from jointed track on timber sleepers to modern continuous welded rail on concrete sleepers. As well as safety benefits, this has yielded journey time improvements, and has seen track renewal completed on the routes from Dublin to Galway, Sligo, Tralee, Waterford, Westport, Ballina, Ennis and Rosslare.

Having initially focused Intercity investment on track and infrastructure, new trains will begin to arrive for Intercity in 2005, with 67 new carriages dedicated to the Cork/Dublin route currently under construction. In the final days of 2004, the largest ever order of new trains by Iarnród Éireann was placed for 120 Intercity railcars, to enter service in 2007 and 2008.

They will enable us to significantly increase both frequency and capacity on the Intercity routes. The expanded use of diesel railcars has been very successful on our suburban routes, as they have proven to be both flexible and efficient.

The acquisition of these Intercity railcars is an essential part of our plan to update services on our Intercity network including the Waterford, Galway, Kerry and Westport lines. At present approximately half of our carriages are over-age and we plan to have a totally modern fleet in place by 2008. In doing this, we will capitalise on infrastructure improvements such as total renewal of the trackwork and signalling to enable us to provide a more frequent, more comfortable and faster service for our customers.

Trackwork



Operations Review

Major investment projects – on time and on budget

Iarnród Éireann's strong record of delivering major projects on time and on or better than budget continued in 2004.

The total value of capital projects completed during 2004 and capital projects in progress at end 2004 amounted to €1.5 billion. Capital projects which were completed during 2004 achieved savings of approximately €16 million against the approved expenditure. In addition it is currently estimated that savings of €15 million will be achieved on the capital projects in progress at end 2004.

The Capital programme included major Infrastructure and Network Development Projects such as: Heuston Station Re-Development, DART Upgrade and Resignalling of Radial Routes.

Rolling Stock projects in the €1.5 billion Capital Programme include; 67 new Intercity carriages, 116 new Commuter diesel rail cars, 40 new DART Units and major refurbishment and overhaul of the original fleet of 76 DART units. The recently approved contract for 120 Intercity diesel rail cars is also included in the figure.

Investing in facilities for customer convenience

Customer facilities continued to be improved during the year through the use of technology to meet customer needs. DARTXT, the first public transport text information service in the country to feature live service information, was introduced. By texting a DART station name (e.g. DART Raheny) to 53700, customers get a return text message detailing the next series of departures in each direction. The service has been a major success with over 1,000 DART customers using the facility.

Seat reservations have commenced online on www.irishrail.ie. Seats on all first class and premium services are now available online, and standard class seats on key peak trains on Fridays are currently being piloted. On-line seat reservations will continue to be rolled out during 2005. Ticket vending machines attached to the system have also been installed at key stations, allowing customers to swipe their credit card and collect their tickets without queuing, similar to cinema systems.

Automatic ticket vending machines have been introduced in over 60 stations across the DART, Commuter and Intercity services, significantly reducing queuing times for tickets at stations. The machines offer a range of tickets, and will be expanded further in the network in the coming months.

Operational Performance

During 2004 punctuality improved most noticeably on the Heuston based mainline Intercity services. Effective action plans to significantly reduce the incidence of delay to Intercity trains from operations, mechanical engineering and infrastructure causes, ensured that the Memorandum of Understanding 90% punctuality target was being generally achieved by year end. DART and Commuter train services

As well as trains and infrastructure, Iarnród Éireann are investing in customer facilities

Operations Review

benefited from better punctuality in the first half of 2004, but suffered markedly from the impact of the major Northside DART upgrade project in the Connolly area in the second half of the year.

Cancellations are very infrequent on any Iarnród Éireann services, with a major achievement in 2004 of less then 1% of trains cancelled in any passenger business.

During the year, in overall terms, reliability performance was ahead of the 98% Memorandum of Understanding target in the three service types.

The new Passenger Timetable introduced on 14th December 2003 includes a 25-43% increase in capacity on peak Commuter services on the Drogheda, Maynooth and Kildare lines, some new Intercity services on the Waterford, Galway and Limerick lines and more frequent local services in the Cork and Limerick areas including a radical increase on the Ennis-Limerick service. Implementation of the new services was very successful and customers have responded positively to the enhancements.

Key elements that facilitated the successful timetable implementation were the commissioning of the 80 new Diesel Railcars, integrating the new Drogheda Depot into current maintenance routines, the provision of additional platforms at Heuston as part of the €117 million redevelopment of the station and the completion of a new platform and turn back facilities at Newbridge Station.

Safety

The highest priority continues to be given to Safety Management within the organisation. Together with the investment in higher safety specification for new rolling stock and infrastructure, greater emphasis was placed on safety training and employee safety awareness.

There was no passenger or staff fatality during 2004.

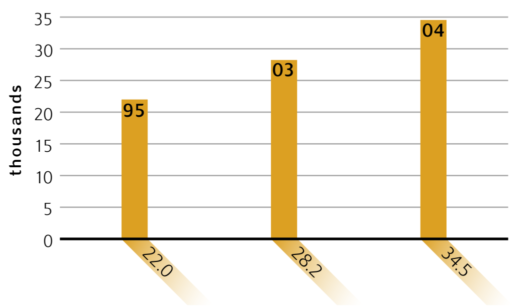
The safety statistics for 2004 showed improvements in many areas such as; third party injuries, broken/fractured rails, Signals Passed At Danger and fire incidents.

There was an increase in incidents caused by third parties and in particular;

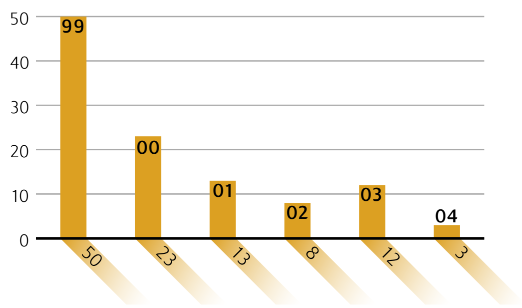
- Incidents at level crossings caused by public road vehicles
- Bridge strikes by public road vehicles

New Railway Safety Legislation will have strict penalties including prison sentences for Bridge Strikes. A publicity campaign will be carried out in 2005 to highlight the risks and dangers associated with bridge strikes and level crossing incidents. This will be carried out in consultation with the Interim Railway Safety Commission, the Gardaí, Road Hauliers Association, Local Authorities and the Department of Transport.

Suburban Peak Capacity



Number of Broken/Fractured rails



Operations Review

Accessibility

Accessibility works, mainly involving the provision of lifts/ footbridges, are currently underway at Cork, Athy, Longford and Laytown stations and are due for completion shortly.

The DART Upgrade project is in the process of making DART stations as accessible as is feasible, by the end of 2005.

Platforms at Mullingar, Ballymote and Carrick on Shannon are currently being lengthened and are also being made fully compliant with accessibility requirements.

A contract was recently signed for the Feasibility and Design development for ten stations on the Dublin/Cork line.

The upgrade programme for the rolling stock fleet will also ensure that all carriages will be wheelchair accessible by 2007.

Emergency Response Simulation Exercise

In order to test the strength of the emergency response plan, an emergency scenario was set up on Tuesday 14th September (Operation Grey). The simulation exercise centred on the derailment of a 2700 class railcar service from Ballybrophy to Limerick.

DART remains the country's greatest public transport success story, marking its 20th anniversary in 2004.

Some key measurable results sought included; the response time of Iarnród Éireann personnel and emergency services to the scene; their effectiveness; the manner in which the 'survivors' were managed including counselling and the effectiveness of the activation of the emergency telephone centre.

Debriefing those involved in the exercise took place to determine lessons to be learned and actions to be taken to strengthen our Emergency Response.

Network Development

Dart Upgrade Project: The DART upgrade project will deliver 8 car DART and Diesel Rail car operation and increase peak passenger carrying capacity on existing DART and commuter services from 11,800 to 16,000 passengers carried per hour per direction by end of 2005. It also encompasses a number of other important developments including access and egress to station infrastructure for all users including mobility and sensory impaired customers.

By the end of 2004, all southside platforms were extended, as were 80% of the northside station platforms. Site works were commenced and are progressing well in the construction of two new northside station buildings and the overhead line was 75% renewed.

While services are suspended at weekends, special arrangements have been made with additional buses on adjacent routes provided by Bus Átha Cliath.

Kildare Route: The initial design for introducing four-tracking on the Kildare line has been completed. Options for phasing of the project are being considered.

N3 Spur: A feasibility study has been finalised in respect of re-opening part of the Navan line as far as Pace near the N3 where the M3 interchanges and a Park and Ride facility is planned.

Operations Review

City Centre Station: A feasibility study is being completed into the location of a city centre station to increase capacity.

Cork/Midleton: An engineering feasibility study is currently underway to evaluate technical requirements and costs of the re-opening of the Glounthane to Midleton branch.

Level Crossings: During 2004, 45 level crossings were closed including 25 considered particularly high risk ones. An additional 6 crossings were upgraded and minor renewal works were carried out at a further 30 level crossings.

Coastal Defence: Work undertaken included strengthening of Slatty Viaduct Bridge, and coastal protection measures at Killiney Slopes, Greystones to Wicklow and at Bray Head.

Resignalling: A €44.4 million project to install modern electronic signalling on the Galway, Waterford, Tralee and Sligo lines is progressing well with the Galway, Waterford and Tralee lines complete; and Sligo due by the end of November 2005.

Heuston Station Train Hall Roof Renewal: A contract has recently been let to carry out the renovation work on the train hall roof at Heuston Station at a cost of €13.5 million. The original roof dates from the 1840's and is beyond repair. The new roof, which will retain many of the original structure elements, will allow better light and ventilation and will add to customer comfort.

Maintenance of Rolling Stock: Improvements in arrangements and of facilities for the maintenance of rolling stock have continued. The Drogheda depot is now fully operational and maintains a fleet of 144 railcars. A locomotive overhaul programme for the 201 fleet is in progress. Plans for a new depot in the Midlands, to service the 120 Intercity railcars due into service in 2007, are well underway.

Revenue Protection: Exit validation is seen as a key element in securing the revenue potential of the DART network and will be implemented at the major central area stations by end 2005.

Planning for Serving Customer Demand

A co-ordinated approach is taken to the development of the services covering all aspects including infrastructure, signalling, stations, rolling stock and systems. Much has been achieved in recent years in the development of the route infrastructure, signalling and major stations.

The major priorities now, in terms of meeting the requirements of the National Spatial Strategy, include the development of the fleet to facilitate increased service frequencies and clockface timetabling and, in particular, the launch in 2006 of an hourly service between Dublin and Cork will represent a step change in the Intercity service schedules. Further improvements will follow with the delivery of the 120 Intercity railcars. This will address many of the regional development issues.

A number of key national and regional strategic studies and reports have set the agenda for the development of both the Intercity and commuter rail services. These reflect changing demographic patterns and the need for a greater emphasis on regional development. Key among the studies/reports are:-

- The National Spatial Strategy (NSS)
- The Regional Planning Guidelines (RPGs) for the eight sub-regions arising out of the NSS.
- The Strategic Rail Review (SRR)

Operations Review

Iarnród Éireann actively participated in the preparation of these plans and has identified a number of key issues that are being addressed in both its priority investment programme and longer term plans. These include:

- Expanding commuter belts in the major cities and particularly Dublin,
- The urgent need to address capacity constraints in both the Intercity and commuter businesses, and
- The need to upgrade/modernise facilities and rolling stock in order to deliver a competitive and attractive service to the travelling public.

Regional development

The development of regional services using railcars is progressing and;

- Iarnród Éireann is participating in initial studies for the development of a Western Rail Corridor
- A detailed engineering and design feasibility study is underway on the Midleton branch in preparation for the reinstatement and re-opening of the line
- Increased services, using modern diesel railcars, have been introduced on the Waterford to Limerick line
- The Limerick – Ennis branch has been successfully renewed for higher frequency passenger services.

Investment has been made on the Waterford to Limerick Line with the reinstatement of the Cahir Viaduct and the introduction of a diesel railcar service with improved connections at Limerick Junction.

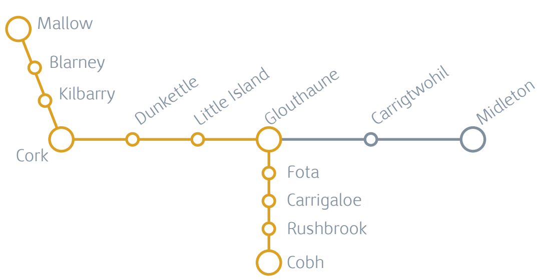
Western development

The Minister for Transport has established a Working Group to review the feasibility of re-opening the Western Rail Corridor between Sligo and Limerick. A number of working groups have been established to pursue specific elements of the study, which is due to be completed before mid 2005.

Cork regional development

Following a feasibility study, the Minister for Transport in May 2004 announced the approval of funding for the re-opening of the Cork to Midleton line as part of a plan for development of commuter rail services in Cork as originally recommended in the Cork Area Strategic Plan. A detailed design and feasibility study is currently underway to finalise engineering issues, determine more detailed capital cost estimates and recommend a procurement/implementation strategy. A steering group has been established chaired by the Department of Transport which includes Iarnród Éireann and the Local Authority Managers.

Cork Regional Map



Greater Dublin Integrated Plan

Iarnród Éireann has developed an integrated plan for the Greater Dublin Area. The proposed network has the potential to quadruple current carrying capacity and will provide 5 new City Centre underground stations and 17 new stations in outlying locations.

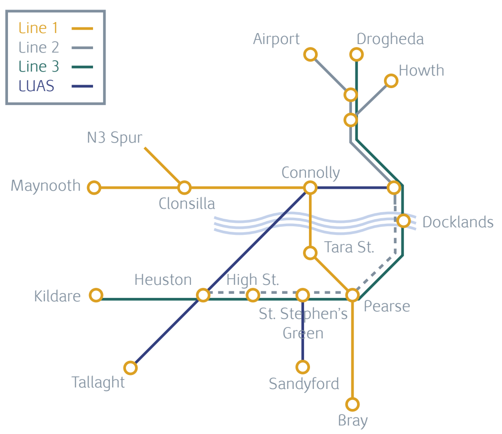
The proposed phased plan is to create a cohesive and integrated public transport network offering superior access between Dublin City Centre and nearly all major population centres within a 100km commuter belt. A fully developed

Operations Review

network, with an east-west City Centre interconnector tunnel, would facilitate a radical transformation of the current network of services along with more flexible and reliable timetabling. It would also offer easy and convenient interchange between all bus and rail services (Suburban, Intercity, LUAS and Metro).

A business case for the Integrated Plan has been presented to the Department of Transport for consideration.

Greater Dublin Area Integrated Plan



Board Member

It is with great sadness that we report of the death of Mr. Plevna Ellis in July 2004.

He served on the Board of Córas Iompair Éireann as well as the Iarnród Éireann board.

His contribution to the Boards was immense and his knowledge, enthusiasm and commitment were extremely valuable to the important work of a number of board committees and advisory groups. He particularly enjoyed working with the Mechanical Engineering Advisory Group, the Infrastructure Advisory Group and the DART Refurbishment Advisory Group. He will be sorely missed.

Employees

Employee Numbers

Core employee numbers at the end of the year were 5,178 (5,352 in 2003). This represents a reduction of 174 since the end of 2003. In addition the number of employees in our New Works division dealing with investment projects increased from 253 to 369 to cater for the expanding investment programme.

Employee Participation

In co-operation with the National Centre for Partnership, Iarnród Éireann is seeking to develop stronger employee/ management/ trade union relationships built on an active partnership model. Initially co-operation is being expressed in a joint training initiative involving local representatives of staff and management.

Equal Opportunities

Iarnród Éireann has currently more than thirty nationalities represented within its workforce. During 2003, a formal Policy on Diversity and Equality was developed for publication and implementation in early 2004.

A Code of Practice on the Employment of People with Disabilities was drafted and issued during the year.

Iarnród Éireann formed a Work Life Balance Network as part of a Cross Organisational Working Group supported by EU funding.

First day at school parents' leave was introduced. Tele-working and Term Time Leave policies were developed to extend the existing range of leave and working arrangements, which facilitate work/home life balance.

Operations Review

Drugs and Alcohol Policy

Corporate policy in assuring protection against inappropriate use of drugs/alcohol became effective 1 July 2004.

This policy sets out the Company's approach and process in dealing with risks arising for staff, for rail users and the public and in doing so, onerates staff and management with particular responsibilities.

In April 2004, our Health Promotions Officer commenced a wide scale series of drugs/alcohol abuse/use awareness workshops. This initiative was supported by a company and countrywide poster campaign alerting all employees to the dangers involved in the misuse or abuse of drugs/alcohol.

Investing for the future of the railway, and the future of our country