Iarnród Éireann Annual Report
and Financial Statements 2016

Iarnród Éireann
Irish Rail

Iarnród Éireann

Mission

Delivering transport services that continually meet out customers' requirements and help drive Ireland's economic development

Vision

Building a better future together by Improving our services and Growing our business.

Values

- Always Safe
- Customers at the heart of our business
- Valuing our people
- Iarnród Éireann - One Team
- Proud of our past, passionate about our future

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Financial and Operating Highlights 2016

Revenue
€244.5m +4.5%

Rosslare Europort Revenue
€10.5m +1.9%

EBITDA
€25.4m -13.9%

MAC
€126.0m 12.6%

Journeys
42.8m +7.8%

Contribution to exchequer
€115.9m +3%

Freight Tonne kms
101.4m +5.2%

Punctuality – DART
96.9% -0.3%

PSO
€110.7m +12.7%

PSO excludes Heavy Fleet Maintenance Funding (€22.4m)

Punctuality – Intercity
97.1% +0.3%

Deficit
(€2.9m) reduced 62%

Punctuality – Commuter
97.3% +0%

Passenger train km operated
17.0m +0%

Employees
3,806 +13

EBITDA is defined as Earnings before Interest, Tax, Depreciation Amortisation and Exceptional Items

Córas Iompair Éireann would like to acknowledge funding on major projects by the Irish Government under the EU and by the Infrastructure and Capital Investment 2012-2016 Medium Term Exchequer framework.

Chairman's Statement

The year 2016 has been one in which we must balance taking pride in our progress, while cautioning against complacency.

The year 2016 has been one in which we must balance taking pride in our progress, while cautioning against complacency. Business growth is welcome, with passenger numbers and revenue in particular performing well, but our challenges remain very real, and we continue to work with our stakeholders to ensure they are addressed in a sustainable manner.

Most importantly for any railway, we delivered our services safely throughout the year to 42.8 million passengers, an increase of 8%.

Ireland is recorded as having the lowest number of accidents, fatalities and weighted serious injuries in the most recent European Union Agency for Railways' review of safety performance across member states, Switzerland and Norway. Such performance is only achieved and can only be sustained by everyone in the company being focused on safety, no matter their role in the organisation. The major programme "Accident Free Depends On Me ", launched in 2015, continued throughout 2016 with an increased number of initiatives launched.

During 2016, in support of our organisational value to be Always Safe, the company has engaged with the Commissioner for Rail Regulation and agreed a joint programme of actions, including revised reporting and governance arrangements between the two bodies.

The board and management of Iarnród Éireann are committed to fulfilling this programme of actions to ensure the highest standards of safety are sustained within Iarnród Éireann for customers, employees and third parties.

An essential element in ensuring we maintain our safety performance is that we are adequately and sustainably funded to maintain our network and fleet, and deliver our services.

The publication of the Rail Review in 2016, jointly with the National Transport Authority, confirmed that we remain inadequately funded for the network and services we are contracted to provide and the asset condition continues to deteriorate. As well as safety, this has implications for service quality, when our ambition is to improve on both criteria.

Notwithstanding our improved financial performance in 2016, the fact that this underfunding has been continuous throughout most of the past decade has led to accumulated losses of €153 million. If we are to finally remove the threat of insolvency, we must address this issue.

As we look forward to the outcome of the NTA's public consultation arising from the Rail Review, we welcome the supplementary funding announced for this year by the Minister for Transport, Tourism and Sport in Budget 2017. This will enable us to address urgent fleet and infrastructure maintenance requirements this year, and develop significant safety investment programmes in Automatic Train Protection and train radio upgrades.

I wish to acknowledge the ongoing support and engagement during 2016 of our shareholder the Minister for Transport, Tourism and Sport Shane Ross TD, his predecessor Paschal Donohoe TD, his Department officials and the National Transport Authority who continue to engage proactively and constructively to achieve that sustainable future.

I have received excellent support from the Board during 2016 and would like to thank them for their diligence and guidance, particularly in a year where we carried a number of vacancies at Board level.

I also wish to thank our team of approx 3,806 employees, who despite the challenges we have faced, continue to deliver a safe, customer-focused service to our increasing number of customers. During 2016, we reinstated pay to our employees which had been the subject of a 25-month temporary reduction. I thank all of the Iarnród Éireann team who, through this contribution, helped us through this most challenging of eras.

Working as One Team, we have also delivered much to be proud of in 2016:

- Passenger numbers grew by 8% to 42.8 million, which included an 11% growth in DART business.
- We exceeded all NTA performance and punctuality targets.
- Rail freight volumes increased by 5.2% to 101.4 million tonne kilometres.
- Rosslare Europort saw increases in all major business sectors, including passenger cars (4.5%), RoRo Freight units ((4.3%) and trade vehicle imports (8.3%).
- The investment in the Phoenix Park Tunnel was completed, enabling regular peak commuter services to commence in October 2016.
- We completed the latest phase of the City Centre Resignalling Project, which will expand the capacity of the city network.
- We advanced our Customer First programme, which will make our services easier to buy and easier to use for customers, and will launch in 2017.
- We commenced a major resignalling programme in the Limerick Station area which will be complete in 2017.
- We delivered a second year of track improvement works on the Dublin/Cork line which will improve service performance and journey time.
- We worked to raise awareness of mental health issues through partnerships with the Green Ribbon Month, Samaritans Ireland and Cycle against Suicide.

We also continue to look at our long-term strategic opportunities. The policy imperatives to address congestion, and to reduce transport emissions sees rail uniquely placed to meet urban and inter-urban requirements. This can be achieved through:

- The DART Expansion Programme, including the transformative DART Underground the redesign of which is being advanced with the NTA to be in a position to commence construction from 2020 if funding is available.
- Continuing investment in rail line speeds to enhance the competitiveness of Intercity rail.
- Further development of commuter rail in our regional cities.
- Fleet expansion to meet our future requirements.
- Strategically planning for the long-term electrification of the Intercity network.

The National Planning Framework is being developed, the Greater Dublin Area Transport Strategy is in place, a National Mitigation Plan for carbon emission is being prepared, and the State has commitments under European Union and United Nations climate agreements to achieve.

This represents a unique opportunity to firmly put our transport system, and specifically our public transport system, on a sustainable footing for the future – environmentally and financially. By planning how our country develops, prioritising development around existing high capacity infrastructure such as rail, and investing in networks which can deliver modal shift, a better future will be created for Ireland.

As Iarnród Éireann marks 30 years as a company, building on the preceding 150 years of railway history, we stand ready to play our part in creating that better future.

Phil Gaffney
Chairman

Chief Executive's Report

In 2016 we saw significant growth in passenger numbers right across Intercity, Commuter and DART services, growing by 8% to 42.8 million journeys. Growth in the economy and employment, and major events such as the 1916 Rising Commemorations contributed to the uplift.

In 2016 we saw significant growth in passenger numbers right across Intercity, Commuter and DART services, growing by 8% to 42.8 million journeys. Growth in the economy and employment, and major events such as the 1916 Rising Commemorations contributed to the uplift.

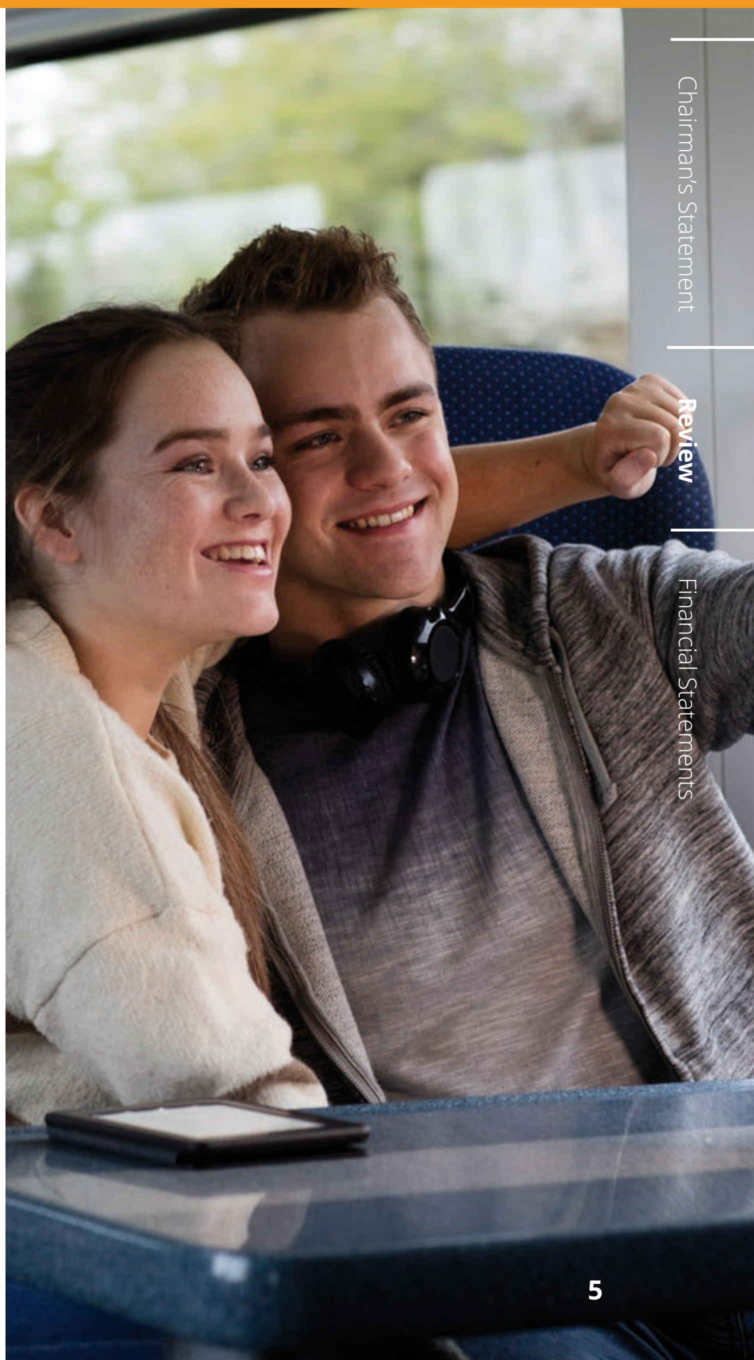
However, the challenges of providing a safe, customer-focused service as demand grows remains. In 2016 we continued to operate in an under-funded environment with the absolute necessity to bring our finances to a sustainable position.

The publication of the Rail Review in August 2016 jointly with the National Transport Authority outlines the stark realities of underfunding on the future of the railway. Throughout 2017 we will continue to work as one team, and with our stakeholders, to ensure that we develop a rail service and system which is always safe and put the needs of our customers, communities and the wider economy at the heart of our business.

Our safety

The first and foremost belief and value of Iarnród Éireann is that we should be always safe. To ensure this, our Safety Management System underpins all we do, and is independently supervised by the Commission for Rail Regulation (CRR).

The Company has a strong record in safety management as acknowledged by the latest European Union Agency for Railways' review of safety performance, and the latest CRR Safety Performance Report. However, our underfunding must be addressed first and foremost to ensure we maintain and improve safety.



Our focus remains on preventative measures with a series of initiatives launched in the previous year to enhance safety culture and leadership being built on to include further training for managers and supervisors and an inaugural Safety Award Scheme in acknowledgement of employees implementing best practices across the organisation.

Safety performance indicators in 2016 included:

- The number of signals passed at danger reduced from 15 to 13 with the introduction of Driver Reminder Appliances in early 2016 supporting this.
- Third party incidents, predominantly slips, trips and falls in stations, adversely trended with 252 recorded against 202 in the previous year with strong growth in passenger numbers contributing to this change.
- Reportable Lost Time Accidents amongst employees showed an increase from 48 to 51.

A major safety investment priority for Iarnród Éireann is for an Automatic Train Protection system to prevent signals passed at danger. The Company progressed design works during the year and is now preparing plans to commence installation of such a system. The support of the Department of Transport, Tourism and Sport in funding this strategic initiative is acknowledged and will allow train protection standards on the network in Ireland to be brought into line with those on most European railways.

Our Finances

The overall result of the year is a deficit of €2.9 million compared to a reported deficit of €7.7 million in 2015. The result is favourable to budget primarily due to continued strong passenger revenues. Revenue has increased year on year in, Rosslare, Freight, property and advertising, and in third party income excluding one-time adjustments in 2016. The ongoing economic recovery has resulted in increased service demand resulting in increased passenger journeys and continued growth in passenger revenue.

Passenger revenue in 2016 was the highest recorded in the history of the company at €193.7 million. Changes to travel zones and fares has had a negative impact on passenger revenue of circa €0.5m. This has been recovered through higher service demand driven from continued marketing activities. Revenue from operations at €244.5 million is favourable to prior year by €10.6 million.

A comprehensive rail review was completed in 2016 in conjunction with the National Transport Authority. The report quantified the funding gap to be circa €600 million for the period 2017 to 2021. This level of investment would enable the required level of maintenance to be achieved and start a programme to invest in new fleet.

The Department of Transport, Tourism and Sport provided additional funding of €30 million. In 2016 €22.4 million of this was used for the maintenance of rolling stock and the remainder for the maintenance and renewal work on the infrastructure asset. Whilst the additional funding is welcome it does not meet the annual funding gap identified. This must be addressed to ensure safety and service standards are maintained.

Solvency remains a serious issue for the company and the balance sheet cannot sustain any unexpected financial shocks.

Payroll

The pay deal implemented by the company for a period of 25 months in 2014 ceased in October 2016. The total payroll savings delivered over the course of the pay deal was €8.9 million.

Our customers

In 2016, once again we achieved and exceeded our public service obligation targets on all routes, with most routes exceeding 95% punctuality.

There was continued strong demand with passenger journeys and passenger revenue growth of 8.0% and 5.2% respectively in 2016. In total, passenger revenue increased from €184.2 million to €193.7 million, the best year ever. This growth was recorded across all businesses – Intercity, DART and Commuter.

- The company's commercial activity continued to generate growth in key market segments.
- In 2016, student promotional activity yielded a fifth consecutive year of growth, averaging 1.9%.
- A series of online seat sales in 2016 resulted in a 4% increase in online revenue.
- TaxSaver revenue increased by 8% with another record number of companies registered with our business sales team, which also grew usage within existing participating companies.

The design and build phase of the Customer First programme is progressing to plan, which through technology initiatives will transform the way Iarnród Éireann interacts with and transacts with its customers. The new capabilities which include online sales, Customer Relationship Management (CRM) and revenue management will deploy from early 2017 to mid-year and will yield benefit to customers on a phased basis.

The fully refurbished fleet on the Belfast/Dublin Enterprise returned to service in early 2016, delivering significant improvements in customer facilities and comfort resulting in increased passenger journeys and passenger revenue growth of 2.5%.

Belmond successfully launched their Grand Hibernian luxury train tour across Ireland in August 2016 bringing to life the partnership agreement signed in 2014. Planning is now underway for the 2017 season.

Phoenix Park tunnel cross city services commenced operation in November 2016 with 7 services from Newbridge/Hazlehatch to Grand Canal Dock in the AM peak and 8 services returning in the evening.

Iarnród Éireann's independent Customer Satisfaction monitor registered an overall satisfaction level of 95%, a record high.

Freight

In 2016 the Company's key rail freight traffics included:

- Zinc ore from Tara Mines to Dublin Port
- Container trains from Ballina to Dublin Port and Waterford
- Timber trains from Co. Mayo to Waterford.

Rail freight revenue, including Navigator Freight Forwarding, increased from €8.8 million to €9 million in 2016, with total tonne kilometres increasing from 96.4 million to 101.4 million, primarily due to an increase in mineral ore volumes.

Iarnród Éireann Freight successfully completed the trail of the longest ever freight train during 2016 from a current 36 TEU to a 54 TEU which ran from Dublin to Ballina. Further work is ongoing in this area with longer freight trains commencing during 2017 which will strengthen the commercial competitiveness of rail freight.

Iarnród Éireann Freight is also engaging with a number of parties regarding substantial rail freight opportunities within the Bio Mass market and will focus on the commercial, environmental and wider economic value that rail freight offers within these markets.

The Iarnród Éireann Freight Navigator business, which specialises in the collection and distribution of automotive car parts, had another good performance in 2016 despite the impact of Brexit and sterling. Navigator also performed amongst the best in Europe in this sector with 99.6% of all deliveries arriving on time throughout the island of Ireland.

Rosslare Europort

Iarnród Éireann is the port authority at Rosslare Europort, the second busiest seaport in the State in terms of ship movements, tourist traffic and unitised freight.

Revenue was up 1% overall year on year at €10.6 million, reflecting a 4.5% increase in passenger cars and a 4.3% increase in RoRo freight units, while the importation of trade vehicles & light commercials was up 8.3%.

Storm activity in the winter of 2015/16, while not as serious as in 2013/14, nevertheless moved sand into the approaches, and a maintenance dredging programme was carried out at a cost of €1m as a result.

Our Network

Sources of income for the Infrastructure Manager business for 2016 include multi annual contract funding and track access charges from train operations, both passenger and freight amounting to €204.8 million. 2016 was the third year of the multi annual contract and all requirements were successfully met in the year. This included achieving all work programmes within expenditure planned and a network rationalisation programme to remove surplus assets.

Improvement Projects:

National train Control System

The design of a new National Train Control System including a new traffic management system has commenced.

Phoenix Park Tunnel

The Phoenix Park Tunnel route was upgraded, rolling stock brought back into service and passenger services through the tunnel commenced in Q4 2016.

Civil Engineering improvement works:

Technological Solutions at user worked level crossings

The project for implementation of technological solutions through the provision of warning systems to users at user worked level crossings was progressed within 2016. Technical approvals required for implementation of the systems themselves are awaited.

Renewal of bridge at Carrick on Suir

The development and design for the renewal of this bridge was carried out in 2016 with the actual renewal to be undertaken in February 2017. This is the most frequently struck bridge in the country with 19 strikes over the last four years.

Cuttings and Embankments Risk Model

The development and implementation of the cuttings and embankments risk model and decision support tool was carried out in 2016. With over 1,300km of embankments on the network, this is a significant achievement for Iarnród Éireann in that it delivers a comprehensive, objective model to support the decision making across a nationally diverse asset base that is required for its earthworks in the key areas of railway safety, operations, cost and investment. The project was also awarded a prestigious engineering excellence award by Engineers Ireland.

Rail milling technologies

The introduction of rail milling technologies to the network commenced in 2016. This is a major step forward in the risk reduction programme for the track asset and will see significant benefits through the optimisation of the life cycle of the rails.

Signalling Improvement works:

City Centre Resignalling Project

Phase 3 (Tara St to Sandymount Station) signalling, track and OHLE of the CCRP was commissioned and is now operational. Phase 2 (Killester to East Wall Junction) work is ongoing and planning for Phase 4 (Connolly Station and yard) has commenced.

GSM-R:

Phase 1 of the new digital train radio system (GSM-R) has been commissioned on the DART line. Full roll-out on the DART fleet is planned during 2017. Works are progressing on Phase 2 of the project covering the Rosslare, Northern & Sligo lines and the 29000 DMU fleet with target commissioning in 2018.

Limerick Resignalling

Works which will allow for the elimination of the existing life expired lineside Signalling equipment and Limerick Relay Room are progressing on programme and will be completed this year.

Strategic Planning

Iarnród Éireann is now engaged with the NTA to identify possible cost saving measures associated with the DART Underground element of the DART Expansion programme and to agree on a programme for delivering the other elements of the programme. The ongoing works includes reviewing the options for tunnelling, stations and connectivity with the existing network. It is included in the NTA Strategy for the Greater Dublin Area 2016-2035, and remains the single most important transport project for addressing congestion and sustainability in Irish transport.

Iarnród Éireann welcomes the Government's decision to provide additional funding through the Infrastructure Manger multi annual contract for an annual programme of track ballast cleaning, to improve journey times on the Dublin/Cork line.

Our People

At Iarnród Éireann we want our people to enjoy coming to work every day and ensure that they are fulfilled in their current roles and have the support and tools to grow their career. We do this through providing opportunity, training, development programmes, support and equality programmes for all colleagues which values their contribution throughout the organisation.

In 2016, our team of approx. 3,806 people continued to deliver safe, quality transport services to our customers through a difficult economic period. The temporary foregoing of basic pay introduced in 2014 for a period of 25 months ceased in October. Difficult as it was to ask colleagues to accept a salary sacrifice, the contribution was essential to ensure our solvency, and get us through an extremely difficult time, and it is genuinely appreciated.

We embarked on an exercise throughout the year to revise our Mission, Vision and Values as it is important for us as a company to define clearly what we are here for and to offer clarity, purpose and direction to our employees.

Our Mission – Delivering transport services that continually meet our customers' requirements and help drive Ireland's economic development.

Our Vision – Building a better future together by improving our services and Growing our business.

Our Values are:

- Always Safe
- Valuing our people
- Customers at the heart of our business
- One Team
- Proud of our past, passionate about our future

As an organisation we won a number of national and international awards including for train operations, engineering, heritage, marketing, environmental initiatives and our social media. This wouldn't have been possible without strong teamwork and the highest standards of excellence from our people.

Leadership Development Programme

The continued success of our Leadership Development Programme is testament to Iarnród Éireann's strong commitment to providing professional development opportunities to colleagues. Throughout the course of 2015-2016, 180 managers within the organisation have had the opportunity to participate and design a development plan and also bring focus to how each manager can contribute towards the organisation on both an individual and team level.

Succession Planning & Talent Management

Building further on work to date, the trial of a proposed new methodology for assessing performance and high potential using the annual objectives and high potential characteristics which relate to capabilities, motivation and reputation commenced in Q4 2016 and is expected to be completed in early January 2017. The process of drafting a Talent Strategy Statement has commenced to provide a broad outline of how high potential colleagues will be objectively identified, supported and developed to deliver the strategic and business objectives of Iarnród Éireann.

Graduate, Summer Staff & Apprentice Recruitment

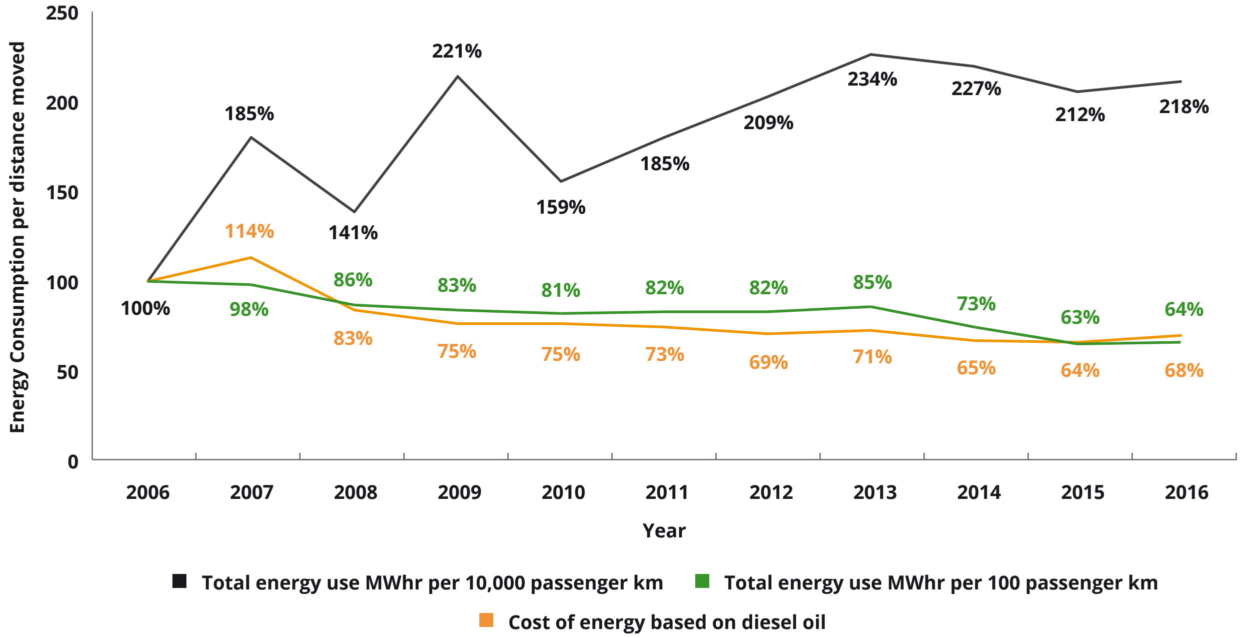
Iarnród Éireann welcomed three successful candidates onto a Graduate Programme for our Train Maintenance business.

In line with putting customers at the heart of our business, 24 temporary summer staff were recruited into the business to provide frontline assistance and service delivery to our customers over the busy summer months. Apprentice recruitment will grow in 2017 with plans to process a further intake.

Our Environment

The Energy consumption profile of Iarnród Éireann (MWhr) is shown below: (all figures rounded to '00)

Year	Y 2006	Y 2010	Y 2014	2015	2016	Notes
Total Energy use MWhr per 10,000 Passenger km	100%	81%	73%	63%	64%	
Total Energy use MWhr per 100 Train km	100%	75%	65%	64%	68%	
Cost of Energy based on Diesel Oil	100%	159%	227%	212%	218%	
Diesel oil for traction	670,300	465,900	414,900	409,700	429,000	Note 1
Electricity for traction	35,400	26,700	19,200	20,519	24,458	Note 2
Road Fuel	13,400	16,600	15,300	15,700	15,700	Note 3
Electricity other	31,000	39,000	37,400	36,800	36,889	Note 4
Gas for heating	18,500	16,300	8,400	8,000	8,700	Note 5
Total Energy use MWhr	**768,600**	**564,500**	**495,200**	**490,719**	**514,747**	Note 6
	100%	**73%**	**64.4%**	**63.8%**	**67.0%**	
			92.3%	99.1%		
Passenger M km	1,872	1,678	1,691	1,917	1,990	Note 7
	100%	90%	90%	102%	106%	
Total Energy use MWhr per 10,000 Passenger km	4.03	3.27	2.93	2.56	2.59	Note 7
	100%	**81%**	**73%**	**63%**	**64%**	
Train M km	18.2	17.7	18.3	18.4	18.4	Note 8
	100%	97%	100%	101%	101%	
Total Energy use MWhr per 100 Train km	4.14	3.10	2.71	2.67	2.80	Note 8
	100%	**75%**	**65%**	**64%**	**68%**	
Number of Electricity Accounts (MPRN)	390	571	597	602	614	Note 4
	100%	**146%**	**153%**	**154%**	**157%**	
Cost of Energy based on Diesel Oil	0.34	0.54	0.77	0.72	0.74	Note 9
	100%	**159%**	**227%**	**212%**	**218%**	



Note 1

Train sizes were altered in 2016 to cater for increased passenger demand for the second year running, total passenger journeys rose by 8% on the 2015 figure. Other increases in services included an extra freight service each week, the Belmond Hibernian train and the introduction of Phoenix Park Tunnel services.

Note 2

The demand increased by 11% for both Passenger journeys and Passenger kilometres on DART which required the lengthening of trains, leading to a 19.2% increase in Traction electricity consumption. A study has confirmed a proportional increase in the carriage km, as expected.

Note 3

Road fuel usage is static.

Note 4

The number of supply (metering) points varied slightly from 602 to 614, and the electricity consumed increased marginally by 0.2%. This is taking place against a background of increasing services due to automation – Ticket Vending, Automatic Barriers, Automatic Level Crossings.

Note 5

Gas usage increased by 8.7%; a “bounce” in consumption was forecast last year in the light of the very significant reductions already implemented. The overall reduction against baseline remains at 53%.

Note 6

The overall use of energy has increased by 4.9%; this is split 80% Traction Diesel, 19% Traction Electricity, 1% gas.

Note 7

There was an increase in Passenger kilometres of 3.8%, while passenger journeys increased by 8%, reflecting the bigger increase in short journeys (DART & Commuter) versus Intercity. Performance reduced by 1% from 64% to 63% as measured by this normalised criterion (Energy per passenger km), but we are now running extra capacity which can take on future passenger numbers growth.

Note 8

There was no significant change in train kms run. The use of energy per train km increased by 4% from 64% to 68% due to the increase in size of the trains.

Note 9

The cost of energy increased for Gas, Electricity and Diesel. Diesel purchases are hedged forward so the prices reflect the hedged price, not the “Prompt price”.

Highlights
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Actions Undertaken in 2016 and planned for 2017

In 2016 Iarnród Éireann continued its work on several levels:

Diesel Fuel for traction

- Initiated a test programme to verify the efficacy of a product that claims to reduce fuel consumption in diesel reciprocating engines.
  - This has now moved on to a full site test (Cork Depot)
  - This test is still running; delayed by the late requirement to improve the on-board measurement systems (now complete for the test fleet)
  - The additive will be removed in April 2017 and results will be analysed after the run-down period of 3 months.
- Locomotive engine – Replacement.
  - A project to replace the 20 year old 2-stroke engines with smaller modern efficient engines, with automatic shutdown provided as standard is underway.
  - The "Tender Process" has been completed and the project is ready to go, subject to finance being made available.
- Diesel Multiple Unit Gearbox (Intercity Railcars) – Replacement.
  - A feasibility study was completed and this project could generate savings of 15% on these fleets. Next step is approval trial on a 3 x carriage train which is expected to commence in late 2017.
- Locomotive fuel management
  - A remote monitoring and reporting system is being fitted to the entire Locomotive fleet. This will monitor fuel usage and report by location and assist to control unnecessary locomotive engine running to reduce fuel consumption.

Electricity for traction.

- This situation is unchanged from 2015
  - Further modifications of the Traction Control Software have been deferred until the "10 minute DART" service is implemented and stable. Modifications to MIC have also been deferred; we will probably have to increase the MICs to account for bigger peak loads.

Building Energy Consumption

- Ongoing replacing old lighting with newer energy efficient lighting under a continuous Maintenance/ Renewal Programme

Our community

Iarnród Éireann continues to support a range of initiatives to improve awareness of mental health issues in Ireland. These include:

- We are a distribution partner for Seechange.ie's Green Ribbon Month, a mental health awareness programme held annually in May
- Over 100 employees participated in the 2016 Cycle against Suicide
- Samaritans Ireland hosted awareness days in stations around the network.

Iarnród Éireann partnered with the Royal Irish Academy to mark the centenary of the 1916 rising and the renaming of 15 stations after the 16 executed leaders throughout 2016.

Iarnród Éireann's main Corporate Social Responsivity Programme was reinvigorated in 2016 with the support of a new media partner, The Journal.ie. The programme, now called Journal Journeys with Iarnród Éireann, sees 100 community and voluntary groups from right around the country receive a free group travel trip to support their contribution to their communities.

Iarnród Éireann published its 2nd Corporate Social Responsibility Statement in 2016 and continues to find new and innovative ways to interact with communities and the environment in a positive way.

Directors and Other Information

Directors
Mr. P. Gaffney (Chairman)
Mr. F. Allen
Ms. C. Griffiths
Mr. M. McGreevy
Mr. J. Moloney
Dr. P. Mulholland
Mr. T. Wynne

Chief Executive

Mr. D. Franks

Secretary

Ms. G. Finucane

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Auditors

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Chartered Accountants and
Statutory Audit Firm

Deloitte & Touche House

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Dublin 2

Phil Gaffney

Phil Gaffney was re-appointed as Chairman of Iarnród Éireann and CIÉ Board Member in July 2014, having previously served as Iarnród Éireann Chairman and CIÉ board Member since June 2011 and as a director of Iarnród Éireann since 2006. Mr Gaffney is a railway signalling engineer by profession. Before retiring in December 2005, Phil had spent 28 years with Hong Kong MTR. During that time his positions included Chief Engineer, Operations Director and Managing Director. He is Chairman of the CIÉ board Safety Committee. He is also a non-executive director of London's Crossrail board and a member of the Crossrail Health & Safety Committee.

Frank Allen

Frank Allen is an independent financial consultant, advising on infrastructure investment and operations in developing and transition economies. He was Chief Executive of the Railway Procurement Agency from 2002 to 2012 and prior to that he was Head of Infrastructure Finance at KBC Bank and worked for the World Bank in Washington DC. He is a graduate of University College Cork and the Massachusetts Institute of Technology. He is a member of the Institute of Directors.

Carolyn Griffiths

Carolyn Griffiths is a Fellow of both the Royal Academy of Engineers and the Institution of Mechanical Engineers. She is President Elect of the Institution and a Trustee of the Institution and also Engineering Council. She has extensive experience of the railway industry having worked in various sectors in the UK, Singapore, Germany and Sweden. Her two most recent positions were Senior Vice President of a multinational company and the founding Chief Inspector of the Rail Accident Investigation Branch in the UK. She was awarded an Honorary Doctorate by Cranfield University in 2013 for her achievements in and contributions to the rail industry.

Mal McGreevy

Mal McGreevy, who has recently retired from the position of General Manager, Rail Services, Translink, Northern Ireland Transport Holding Company, has extensive experience in the transport sector. A Mechanical Engineer by profession, Mal has held senior positions in both bus and rail companies since joining Ulster Bus in 1988, culminating in his appointment as General Manager – Rail Services in 2004.

John Moloney

John Moloney was appointed to the CIÉ Board in December 2005 under the Worker Participation (State Enterprises) Acts, 1977 to 2001, and subsequently appointed to the board of Iarnród Éireann in December 2009. John joined Bus Éireann in 1978 and works in Capwell Garage in Cork as a bus driver. He is a member of the NBRU.

Dr. Peter Mulholland

Peter Mulholland has over thirty years' experience in Human Resources (HR) covering both the private and public sectors. He retired last year from RTÉ as Group Head of HR after twelve years, having previously held positions in the hotel, insurance and banking sectors and with the Institute of Public Administration. Peter holds a PhD from Trinity College and is a Chartered Fellow of the Chartered Institute of Personnel and Development (CIPD) He was also a former National Chairman and National Treasurer of the CIPD in Ireland and a Fellow of the Irish Institute of Training and Development. He is also a member of the British Psychological Society and is qualified in psychometric profiling. He is a former member of the Dublin Regional Committee of IBEC and the IBEC Foresight HR Committee. He is a qualified Executive and business/personal coach.

Tommy Wynne

Tommy Wynne was appointed to the CIÉ Board in December 2013 under the Worker Participation (State Enterprises) Acts, 1977 to 2001 and to the Iarnród Éireann board at the same time. Tommy joined Iarnród Éireann as a depot man in 1991 and became a train driver in 1994. He is currently the Chairman of the Transport Sector and Utilities and Construction Division of SIPTU.

Directors' Report

The directors present their annual report in accordance with their obligations under the Irish Companies Act 2014 and the Transport (Re-organisation of Córas Iompar Éireann) Act 1986 for the year ended 31 December 2016. The company became a Designated Activity Company on 1st February 2016.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("relevant financial reporting framework"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

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

- select suitable accounting policies for the Company Financial Statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify the standards in question, and note the effect and the reasons for any material departures from those standards;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 102; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The board of directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis for the preparation of the financial statements. Further details are set out in Note 2 to the financial statements.

Principle Activities and Financial Review

The principle 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 (CIÉ), a statutory body wholly owned by the Government of Ireland and reporting to the Minister for Transport, Tourism and Sport, holds 100% of the issued share capital of the Company.

The Company continues to regularly monitor its performance through a range of key operating and financial performance indicators. These reviews by management and the directors include the strong focus on cost savings introduced a number of years ago which has successfully reduced the cost base and improved the quality and efficiency of its services for all customers. The 2016 results show the revenue generated from operations increased by €10.6m over 2015. The amount of the Public Service Obligation ("PSO") subvention received in 2016 was €133m which is up €34.9m on 2015. The increase includes heavy maintenance funding of €22.4m. Other exchequer funding for safety and maintenance reduced by €0.4m from 2015.

The operating costs, before exceptional operating costs, increased by €26.8m over the 2015 level due to the increase in maintenance activities.

The Company recorded a deficit of €0.7m, before an exceptional charge of €1.1m for restructuring costs associated with rationalising the cost base. The overall deficit for the year was €2.9m compared to €7.7m in 2015.

The directors are pleased to report that the targets agreed annually between the Company and the National Transport Authority ("NTA") were met in full for the year ended 31st December 2016.

There were no dividends paid or declared in 2016 or 2015.

Principle risks and uncertainties

The Company is committed to managing risk in a systematic and disciplined manner. Through the risk management framework, the principle risks facing the Company are identified and action plans to mitigate the risks are developed. The principle risks together with the risk mitigation are presented to the board on a quarterly basis. An external audit of the risk management system and processes is carried out on an annual basis.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include liquidity risk, price risk and credit risk. The CIÉ Group, of which the Company is a member, has financial risk management processes and procedures in place to manage these financial exposures of the Company and other CIÉ Group financial risks.

In order to ensure stability of cash outflows and manage financial risk, CIÉ, the parent entity, uses derivative financial instruments in accordance with the specification to the Financial Transactions of Certain Companies Act 1992 which authorises CIÉ's use of financial instruments including commodity swap contracts.

The CIÉ Group's Treasury Policy, which documents the CIÉ Group's policies with regard to financial risk management, is approved by CIÉ Board and implemented by the CIÉ Group Treasury department.

Price risk

The Company is exposed to commodity price risk as a result of its operations, in particular the price of oil. CIÉ enters in to commodity swap contracts to mitigate the CIÉ Group's exposure to oil price movements. The Company is not a party to these contracts.

Foreign Exchange Risk

The CIÉ Group, and the Company, are exposed to foreign exchange risk in the normal course of business, in particular purchases and sales denominated in sterling and US dollars. The CIÉ Group uses a combination of intra group netting of cash flows, which are denominated in foreign currencies, and forward exchange contracts to mitigate the CIÉ Group and the Company's exposure to exchange rate movements. CIÉ enters in to foreign currency forward contracts to mitigate the risk that exists when material financial transactions are denominated in a currency other than Euros. The Company is not a party to these contracts.

Liquidity risk

The CIÉ Group, actively maintains a mix of long-term and short-term debt finance that is designed to ensure the Group, including the Company, has sufficient available funds for day-to-day operations.

The Board

The Company is controlled through its board of directors. The board's main roles are to approve the Company's strategic objectives and to review the operation of the Company against a series of key performance indicators. The board, which meets at least nine times each 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 (2009) are set out in the annual report of the Córas Iompair Éireann Group. This can be found on the CIÉ website at www.CIE.ie.

The company is availing of the transitional arrangements for the introduction of the new Code of Practice issued during 2016 with full compliance from 2017 onwards.

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.

Internal Control

The board of Iarnród Éireann has appointed an Audit & Risk Review Group to review; the annual financial statements, internal controls and compliance matters, the effectiveness of internal and external audit and risk management.

The board has also appointed an Infrastructure Advisory Group to monitor infrastructure renewal, project manage large infrastructure, signalling, electrical and telecoms projects and performance. The Train Advisory Group assists the board in matters relating to customer experience and perception, commercial strategies, train engineering, regulatory changes and business risks. The Safety Advisory Group assists the board in monitoring these key business areas.

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 enable them to scrutinise the Company's and management's performance against agreed objectives.

Accounting records

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and the employment of suitably qualified personnel. The accounting records are kept at the Company's head office at Connolly Station, Amiens Street, Dublin 1.

Events since the end of the financial year

The directors have evaluated events since the end of the financial year and concluded that no events occurred that would require recognition or disclosure in the Company financial statements.

Health and Safety

The Company is fully committed to complying with the provisions of the Safety, Health and Welfare at Work Act, 2005 and all other national and EU Regulations. The Safety Management System is kept under review and is updated on an ongoing basis.

Railway Safety Act 2005

Iarnród Éireann continues to operate in compliance with the Railway Safety Act 2005.

Late Payment in Commercial Transactions Regulations 2013

The directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the EC (Late Payment in Commercial Transactions) Amendment Regulations 2013. 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.

During 2016 a total of €42,000 (2015:€21,000) was paid to third party suppliers under the regulations.

Directors

The directors of the Company are appointed by the Minister for Transport, Tourism and Sport. The names of persons who were directors during the year ended 31 December 2016 or who have since been appointed are set out below. Except where indicated they served as directors for the entire year.

Phil Gaffney	(Chairman)
Frank Allen	(Retired 19 February 2016, reappointed 15th August 2016)
Patricia Golden	(Retired 31 January 2016)
Carolyn Griffiths	
Tracey McGee	(Retired 26th September 2016)
Mal McGreevy	
John Moloney	
Flor O'Mahony	(Retired 8th September 2016)
Dr. Peter Mulholland	(Appointed 12th June 2017)
Thomas Wynne	

Listed Below is the board director's attendance at board meetings during 2016:

	Attendance
Phil Gaffney	10/10
Frank Allen	5/5
Carolyn Griffiths	10/10
Tracey McGee	7/7
Mal McGreevy	8/10
John Moloney	7/10
Flor O'Mahony	7/7
Tommy Wynne	9/10

The April and December board meetings were held in Inchicore to coincide with the annual Safety and Customer Service Awards respectively. The August board meeting was held in Belfast, and facilitated meetings and presentations with the Translink Board.

None of the directors or secretary held any interest or any shares or debentures of the Company, its Holding Company or its fellow subsidiaries at any time during the year. There were no material contracts or arrangements entered into during the year in which a director was interested in relation to the Company's business.

Iarnród Éireann Advisory Groups

The following advisory groups have been set up within Iarnród Éireann to advise the board on strategic and technical matters and to provide a peer review of management proposals. Details of the advisory groups to the Iarnród Éireann board and their non-executive members are as follows.

Safety Advisory Group ('SAG')

The Iarnród Éireann board SAG was established to advise the Iarnród Éireann board and executive on issues relating to safety of passengers, worker, contractors, neighbours and the public more generally. The Group comprise of:

		Attendance
Mr Cliff Perry	Independent Advisor (Chair till end June '16)	5/5
Ms Carolyn Griffiths	Iarnród Éireann Director (Chair from September '16)	5/5
Mr Mal McGreevy	Iarnród Éireann Director	5/5
Mr Tommy Wynne	Worker Director	5/5

Audit & Risk Review Group ('ARRG')

The Iarnród Éireann ARRG provides an avenue of communication between Internal Audit, the external auditors and the Iarnród Éireann board and to review, report on and make recommendations to the Iarnród Éireann board on annual financial statements, internal controls, risk management and governance processes within Iarnród Éireann. It also considers major findings of internal investigations, reports of the internal auditors and management's response. The Group comprise of:

		Attendance
Ms Patricia Golden	Iarnród Éireann Director (Chair to 31 January 2016, co-opted member to 31 March 2016)	1/1
Ms Tracey McGee	Iarnród Éireann Director (Chair from 23 February 2016 to September 2016)	1/1
Mr Frank Allen	Iarnród Éireann Director (member to 19 February 2016, reappointed as Chair August 2016)	2/2
Ms Carolyn Griffiths	Iarnród Éireann Director (member since October 2016)	2/2
Mr Mal McGreevy	Iarnród Éireann Director (member since October 2016)	2/2

Infrastructure Advisory Group ('IAG')

The IAG advises the Iarnród Éireann board and engineering management on performance, asset management strategy, operational strategies for engineering, consideration of regulatory changes, and the evaluation and review of capital projects. The Group comprise of:

		Attendance
Mr Bob Clarke	Independent Advisor (Chair)	10/10
Mr David Wilkinson	Independent Advisor	10/10

Trains Advisory Group ('TAG')

The TAG was established to advise the Iarnród Éireann board and executive on issues relating to the Railway Undertaking, including the customer experience, commercial strategies, service offering and timetable, and train fleet engineering issues. The Group comprise of:

		Attendance
Mr Cliff Perry	Independent Advisor (Chair till end June)	8/9
Mr Mal McGreevy	Iarnród Éireann Director (Chair from August)	9/9

Organisation Development Steering Group ('ODSG')

The ODSG was established in 2016 to guide and report the board on progress with the Organisation Development project which seeks to better map staff profiles and numbers with the changing business requirement. The Group comprise of:

		Attendance
Mr Flor O'Mahony	Iarnród Éireann Director (Chair till September 2016)	4/4
Mr. Mal McGreevy	Iarnród Éireann Director (Chair from January 2017)	–
Mr Stephen Watson	Independent Advisor	3/4
Mr Tommy Wynne	Worker Director	4/4

Directors Compliance Statement

As required by Section 225 of the Companies Act 2014, the directors acknowledge that the directors are responsible for securing the company's compliance with its relevant obligations; and

The directors confirm that the directors completed the following three procedures in order to comply with the directors' obligations during the financial year:

(a) the drawing up of a "compliance policy statement" setting out the company's policies that, in the directors' opinion, are appropriate to the company, and respecting compliance by the company with its relevant obligations;

(b) the putting in place of appropriate arrangements or structures that are, in the directors' opinion, designed to secure material compliance with the company's relevant obligations; and

(c) the conducting of a review, during the financial year of any arrangements or structures that have been put in place.

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 Constitution provides that the appointment and removal of the Company Secretary is a matter for the directors.

Disclosure of information to auditors

In the case of each of the persons who are directors at the time the directors' report and financial statements are approved: So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all steps that ought to have been taken by the director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The statutory auditors, Deloitte, Chartered Accountants and Statutory Audit Firm, who were appointed during the financial year, continue in office in accordance with Section 383(2) of the Companies Act 2014.

On behalf of the board

Mr. Phil Gaffney
Chairman

Mr. Frank Allen
Director

Date:

Independent Auditors' Report to the members of Iarnród Éireann

We have audited the financial statements of Iarnród Éireann for the financial year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes 1 to 29. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and Accounting Standards issued by the Financial Reporting Council, and promulgated by the Institute of Chartered Accountants in Ireland including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2016 and of the loss for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Matters on which we are required to report by the Companies Act 2014

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.

The financial statements are in agreement with the accounting records.

In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

For and on behalf of ....

Chartered Accountants and Statutory Audit Firm

Dublin

Date:

Profit and Loss Account

For the Financial Year Ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Revenue from operations		244,522	233,936
Receipts from Public Service Obligation contracts		110,640	98,161
Other exchequer funding		112,586	112,944
Total revenue	*3*	**467,748**	**445,041**
Costs			
Payroll and related costs	*5*	(241,441)	(233,569)
Materials and services costs	*6*	(200,872)	(181,934)
Total operating costs		**(442,313)**	**(415,503)**
EBITDA before exceptional operating costs		**25,435**	**29,538**
Exceptional costs	*7*	(1,130)	(2,111)
Depreciation and amortisation, net of capital grants amortised	*8*	(24,958)	(32,587)
Profit/(loss) on disposal of tangible assets		7	(5)
Deficit before interest and taxation		**(646)**	**(5,165)**
Interest payable and similar charges	*9*	(2,213)	(2,518)
Deficit for the year on ordinary activities before taxation		**(2,859)**	**(7,683)**
Taxation on ordinary activities	*10*	–	–
Deficit for the financial year		**(2,859)**	**(7,683)**

Statement of Comprehensive Income

For the Financial Year ended 31 December 2016

	2016 €'000	2015 €'000
Deficit for the financial year	(2,859)	(7,683)
Other comprehensive income	–	–
Total comprehensive income for the financial year	**(2,859)**	**(7,683)**

Balance Sheet

As at 31 December 2016

	Notes	2016 €'000	2015 €'000
Fixed assets			
Intangible assets	*12*	1,609	1,825
Tangible assets	*13*	1,913,329	2,049,933
Financial assets	*14*	–	–
		1,914,938	**2,051,758**
Current assets			
Stocks	*15*	51,336	49,522
Debtors	*16*	25,863	20,813
Cash at bank and in hand		2,022	342
		79,221	**70,677**
Creditors (amounts falling due within one year)	*17*	**(268,006)**	**(281,845)**
Net current liabilities		(188,785)	(211,168)
Total assets less current liabilities		**1,726,153**	**1,840,590**
Deferred income	*20*	(1,613,758)	(1,726,272)
Provisions for liabilities	*19*	(71,274)	(70,338)
		41,121	**43,980**
Capital and reserves			
Called up share capital	*21*	194,270	194,270
Profit and loss account – deficit		(153,149)	(150,290)
Total Equity		**41,121**	**43,980**

On behalf of the board

Mr. P. Gaffney
Chairman

Mr. F. Allen
Director

Date:

Statement of Changes in Equity

Financial year ended 31 December 2016

	Called up Share Capital €'000	Profit & Loss €'000	Total Equity €'000
Balance at 1 January 2015	**194,270**	**(142,607)**	**51,663**
Deficit for the financial year	–	(7,683)	(7,683)
Other comprehensive income for the financial year	–	–	–
Total comprehensive income for the financial year	**–**	**(7,683)**	**(7,683)**
Balance at 31 December 2015	**194,270**	**(150,290)**	**43,980**
Deficit for the financial year	–	(2,859)	(2,859)
Other comprehensive income for the financial year	–	–	–
Total comprehensive income for the financial year	–	(2,859)	(2,859)
Balance at 31 December 2016	**194,270**	**(153,149)**	**41,121**

Statement of Cash Flow

Financial year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Net cash generated from operating activities	*22*	**21,327**	**30,816**
Cash flow from investing activities			
Purchase of tangible fixed assets		(84,076)	(110,417)
Disposal of financial assets		–	20
Purchase of intangible fixed assets		(206)	(78)
Proceeds from disposal of tangible fixed assets		7	26
Proceeds from state and EU grants		69,782	96,788
Net cash used in investing capital activities		**(14,493)**	**(13,661)**
Cash flow from financing activities			
Interest paid		(2,213)	(2,518)
Finance lease payments		–	(2,344)
Intercompany financing		(2,769)	(12,309)
Total cash used in financing activities		**(4,982)**	**(17,171)**
Net increase/(decrease) in cash and cash equivalents		**1,852**	**(16)**
Cash and cash equivalents at 1 January		170	187
Cash and cash equivalents at 31 December		**2,022**	**171**
Cash and cash equivalents consist of :			
Cash at bank and in hand		2,022	342
Bank overdrafts		–	(171)
		2,022	**171**

Notes to the Financial Statements

1. Statement of compliance, activities and ownership

(a) Statement of Compliance

The financial statements of Iarnród Éireann have been prepared on a going concern basis in accordance with FRS (Accounting standards issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014), including compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2014.

(b) Activities and ownership

Córas Iompair Éireann (CIÉ), of which Iarnród Éireann is a subsidiary, is Ireland's national statutory authority providing land public transport within Ireland. CIÉ is wholly owned by the Government of Ireland and reports to the Minister for Transport, Tourism and Sport.

Iarnród Éireann is Ireland's leading provider of rail transport.

The Company was re-registered as a Designated Activity Company effective from 1 February 2016, under the Companies Act 2014.

The financial statements of the Company relate solely to the activities of Iarnród Éireann.

Summary of significant accounting policies

The significant accounting policies and estimations techniques adopted in the preparation of these financial statements are set out on the following pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

As permitted by the Companies Act 2014, the directors have adapted the prescribed format of the profit and loss account in a manner appropriate to the nature of the Company's business.

Córas Iompair Éireann owns 100% of the equity share capital of Iarnród Éireann, ('IÉ').

Córas Iompair Éireann is the largest and smallest undertaking who prepares group financial statements, of which Iarnród Éireann is a member. Copies of the Córas Iompair Éireann group financial statements are available from the Company Secretary at Córas Iompair Éireann, Heuston Station, Dublin 8 and on the company's website at IrishRail.ie.

(a) Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention, refer to Note 2 in the Financial Statements for further details.

The preparation of financial statements in conformity with FRS 102 requires the use of certain key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date. It also requires the directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out at (u) below.

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has not taken advantage of any available exemption for qualifying entities.

(b) Revenue

Revenue comprises the gross value of services provided. Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered.

Iarnród Éireann recognises revenue in the period in which the service is provided.

Rail Operations revenue is recognised in the period the service is provided on completion of the customer's journey. Proceeds received for the sale of annual tickets and other future dated products is carried within liabilities and recognised in the profit and loss account over the period of the relevant service.

Notes to the Financial Statements (continued)

1. Statement of compliance, activities and ownership (continued)

Freight revenue is recognised in the period in which the service is provided.

Rosslare Europort revenue is recognised in the period in which the service is provided.

Revenue from advertising and other sundry activities is recognised over the period of the relevant contract. Revenue from advertising is earned from bi-monthly and quarterly contracts with the associated revenue receipt received in arrears.

Income from commissions is recognised when the service is provided to the customer.

Other third party revenues are recognised as they are earned, or at the point of service, to the extent that relevant expenses have been recognised that are recoverable against this revenue in the period.

(c) Material and services costs

Materials and Services costs, constitute all costs associated with the day to day running of the operations of Iarnród Éireann, excluding depreciation and amortisation and payroll costs which are disclosed separately in the profit and loss account, and are disclosed separately in the notes to the financial statements.

(d) Exceptional costs

Iarnród Éireann's profit and loss account separately identifies operational results before specific items. Specific items are those that in the directors' judgement need to be disclosed separately by virtue of their size, nature or incidence. The Company believes that this presentation provides additional analysis as it highlights exceptional costs. Such costs include significant business restructuring costs.

In this regard the determination of 'significant', uses qualitative and quantitative judgement by the directors' in assessing the particular costs, which by virtue of their scale and nature, are disclosed in the profit and loss account and related notes as exceptional costs.

(e) Foreign currency

(i) Functional and presentation currency

The functional currency and presentation currency of the Company is the Euro, denominated by the symbol "€" and unless otherwise stated, the financial statements have been presented in thousands (€'000).

(ii) Transactions and balances

Transactions denominated in the foreign currency are translated into the functional currency using the spot exchange rates at the date of the transactions.

At the end of each financial year foreign currency monetary items are translated to Euro using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at exchange rates at the end of the financial year of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'interest receivable and similar income' or 'interest payable and similar charges' as appropriate. All other foreign exchange gains and losses are presented in the profit and loss account within material and service costs.

(f) European Union and state grants

Iarnród Éireann recognises government grants in line with the accruals model under FRS 102.

Notes to the Financial Statements (continued)

1. *Statement of compliance, activities and ownership (continued)*

(i) Grants for capital expenditure

Grants for capital expenditure are credited to deferred income as they become receivable. They are amortised to the profit and loss account and recognised in income over the useful economic life of the related assets.

(ii) Revenue grants

Revenue grants are recognised as income in the profit and loss account in the period in which the related costs for which the grant is intended to compensate are incurred.

(iii) Infrastructure Manager Multi Annual Contract grant

Infrastructure Manager Multi Annual Contract (MAC) grants are recognised as deferred income or immediately as income in the profit and loss account, by reference to the underlining activity for which the grant is intended to compensate. MAC capital grants credited to deferred income in the balance sheet are amortised over the useful economic life of the related assets.

(g) Employee benefits

The Company provides a numbers of employee benefits to staff depending on their grade, seniority and statutory obligations. Benefits include the payment of salary or wages and the payment of premia for additional work undertaken. In addition, employer contributions in respect of pension are made for eligible staff to the respective pension schemes.

Post-employment benefits

The CIÉ Group operates two defined benefit plans (the CIÉ Pension Scheme for Regular Wages Staff and CIÉ Superannuation Scheme 1951 (Amendment) Scheme 2000 defined benefit plan) for employees of the CIÉ group.

A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a post-employment benefit other than a defined contribution plan.

These schemes have been accounted for in the CIÉ Group financial statements. The defined benefit pension scheme assets are measured at fair value. Defined benefit pension schemes liabilities are measured on an actuarial basis using the projected unit credit method. The excess of scheme liabilities over scheme assets is presented on the balance sheet of CIÉ as a liability.

All of the subsidiaries, as well as CIÉ itself, participate in the CIÉ Pension Scheme for Regular Wages Staff and CIÉ Superannuation Scheme 1951 (Amendment) Scheme 2000 defined benefit plan. The scheme rules do not specify how any surplus or deficit should be allocated among participating employers and there is no contractual agreement or stated policy for allocating the net defined benefit cost to the individual group entities. Accordingly, the net defined benefit cost for the schemes as a whole are recognised in the separate financial statements of CIÉ, as in the absence of a formal contractual arrangement the directors believe that this is entity that is legally responsible for the schemes. The other participating entities, including Iarnród Éireann recognise a cost equal to their contribution for the period. Further details of these schemes are set out in note 24.

(h) Interest

(i) Interest receivable

Interest earned is credited to the profit and loss account in the period in which it was earned.

(ii) Interest payable

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(i) Related parties

Iarnród Éireann is a subsidiary of CIÉ Group. Iarnród Éireann discloses transactions with related parties which are not wholly owned within the group. The Company is exempt from disclosing transactions with members of the same group that are wholly owned.

Notes to the Financial Statements (continued)

1. *Statement of compliance, activities and ownership (continued)*

(j) Taxation

Income tax expense for the financial year comprises current and deferred tax recognised in the financial year. Income tax expense is presented in the same component of total comprehensive income (profit and loss account or other comprehensive income) or equity as the transaction or other event that resulted in the income tax expense.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the financial year or past financial years. Current tax is measured at the amount of current tax that is expected to be paid using tax rates and laws that have been enacted or substantively enacted by the end of the financial year.

(ii) Deferred tax

Deferred tax is recognised in respect of timing differences, which are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in financial years different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the end of each financial year with certain exceptions. Unrelieved tax losses and other deferred tax assets are recognised only when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

(k) EBITDA

EBITDA is company earnings before adjustment for interest and taxation charged, depreciation of fixed assets and amortisation of capital grants received.

(l) Intangible fixed assets

Computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three to five years, on a straight-line basis. Software is not considered to have a residual value. Where factors, such as technological advancement or changes in market prices, indicate that the software's useful life has changed, the useful life is amended prospectively to reflect the new circumstances. Intangible fixed assets are reviewed for impairment if there is an indication that the intangible fixed asset may be impaired.

(m) Tangible fixed assets and depreciation

Tangible fixed assets are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to the location and condition necessary for its intended use and applicable dismantling, removal and restoration costs.

(i) Railway lines and works

Railway lines and works comprise a network of systems.

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

Tangible fixed assets include capitalised employee and other costs that are directly attributable to the asset.

Expenditure on the existing network, which maintains the operating capability in accordance with defined standards of service is treated as maintenance and expensed to the profit and loss account. Any related grant is treated similarly and presented in the profit and loss account.

(ii) Railway rolling stock

Locomotives other than those fully depreciated or acquired at no cost railcars, coaching stock and wagons are depreciated on the basis of their historical cost spread over their estimated economic useful lives using the straight line method.

Notes to the Financial Statements (continued)

1. Statement of compliance, activities and ownership (continued)

(iii) Road freight vehicles

These assets are depreciated on the basis of historical cost spread over their estimated economic useful lives using the straight line method.

(iv) Docks, harbours and wharves; plant and machinery

These assets are depreciated based on the historical cost spread over their estimated economic useful lives using the straight line method.

(v) Land and buildings

Land is not depreciated. Buildings are depreciated, on the based on the historical cost spread over their estimated economic useful lives using the straight line method.

(vi) Depreciation and residual values

Depreciation on assets except land is calculated, using the depreciation methods and estimated useful lives, as follows:

Railway lines and works	straight-line method	10 – 40 years
Bridges	straight-line method	120 years
Railway rolling stock	straight-line method	4 – 20 years
Road freight vehicles	straight-line method	1 – 10 years
Freehold buildings	straight-line method	50 years
Plant and machinery	straight-line method	3 – 30 years
Signalling	straight-line method	10 years
Docks, harbours and wharves	straight-line method	50 years
Catering equipment	straight-line method	5 – 10 years

The range of years is designed to indicate the different economic lives of components within a class of assets. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, each financial year. The effect of any change in either residual values or useful lives is accounted for prospectively.

(vii) Subsequent additions and major components

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is recognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs and maintenance are expensed as incurred to the profit and loss account.

(viii) Derecognition

Tangible fixed assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised as profit or loss.

(n) Heritage assets

Iarnród Éireann has a number of heritage assets, mainly former fleet vehicles, plates, crests and various artefacts. The assets are not maintained "purely for their contribution to knowledge and culture" and the assets comprise mainly former operational assets.

Notes to the Financial Statements (continued)

1. Statement of compliance, activities and ownership (continued)

Given the nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of Iarnród Éireann heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements.

(o) Stocks

Stocks consist of maintenance materials, spare parts, fuel and other sundry stock items. Fuel stock is valued at the lower of weighted average cost and net realisable value. Non-fuel stocks are valued at the lower of cost and net realisable value. Cost comprises the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition.

At the end of each financial year, stocks are assessed for impairment and a provision is made for stocks considered to be impaired.

Civil Engineering (CCE) and Signalling (SET) stock is categorised into moving and unmoving stock. A provision is applied to unmoving stock, based on the length of time since the stock last moved. An excess provision is applied to the excess portion of "moving stock" depending on the level of stock with excess of 2 years usage on hand.

Mechanical Engineering (CME) stock is categorised as strategic, program and consumable stocks. A provision is applied to each category depending on the age of the stock.

Stand by equipment or specialised major spare parts which are held for replacement purposes and are expected to be used during more than one period are held as tangible fixed assets in accordance with FRS 102.

(p) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents are initially measured at transaction price and subsequently measured at amortised cost.

Bank deposits which have original maturities of more than three months are not cash and cash equivalents and are presented as current asset investments.

(q) Financial instruments

(i) Financial assets

The Company has chosen to adopt the provisions of Sections 11 and 12 of FRS 102 to account for all of its financial instruments.

The Company has a number of basic financial assets which include trade and other debtors, amounts owed from group companies and cash and cash equivalents and which are recorded in current assets as due in less than one year.

Basic financial assets are initially recognised at transaction price (including transaction costs), unless the arrangement constitutes a financing transaction. Where the arrangement constitutes a financing transaction the resulting financial asset is initially measured at the present value of the future receipts discounted at a market rate of interest for a similar debt instrument.

Trade and other debtors, cash and cash equivalents, and financial assets from arrangements which constitute financing transactions are subsequently measured at amortised cost using the effective interest method.

At the end of each financial year financial assets measured at amortised cost are assessed for objective evidence of impairment. If there is objective evidence that a financial asset measured at amortised cost is impaired an impairment loss is recognised in profit or loss. The impairment loss is the difference between the financial asset's carrying amount and the present value of the financial asset's estimated cash inflows discounted at the asset's original effective interest rate.

If, in a subsequent financial year, the amount of an impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment loss not previously been recognised. The impairment reversal is recognised in profit or loss.

Notes to the Financial Statements (continued)

1. Statement of compliance, activities and ownership (continued)

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of ownership of the financial asset are transferred to another party or (c) control of the financial asset has been transferred to another party who has the practical ability to unilaterally sell the financial asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Similarly, the Company has a number of basic financial liabilities, including trade and other creditors, bank loans and overdrafts, and loans from fellow group companies, which are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the financial liability is measured at the present value of the future payments discounted at a market rate of interest of a similar debt instrument.

Trade and other creditors, bank loans and overdrafts, loans from fellow group companies and financial liabilities from arrangements which constitute financing transactions are subsequently carried at amortised cost, using the effective interest method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as due within one year if payment is due within one year or less. If not, they are presented as falling due after more than one year. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(r) Provisions and contingencies

(i) Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that a transfer of economic benefit will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the best estimate of the amount required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are reviewed at the end of each financial year and adjusted to reflect the current best estimate of the amount required to settle the obligation. The unwinding of the discount is recognised as a finance cost in profit or loss, presented as part of 'interest payable and similar charges' in the financial year in which it arises.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Restructuring provisions are recognised when the Company has a legal or constructive obligation at the end of the financial year to carry out the restructuring. The Company has a constructive obligation to carry out a restructuring when there is a detailed, formal plan for the restructuring and the Company has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected.

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Company.

Other provisions consist of provisions related to the operation of rail services, pay related provisions, legal claims and pension related provisions.

Provision is not made for future operating losses.

Notes to the Financial Statements (continued)

1. Statement of compliance, activities and ownership (continued)

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised as a liability because it is not probable that the Company will be required to transfer economic benefits in settlement of the obligation or the amount cannot be reliably measured at the end of the financial year. Possible but uncertain obligations are not recognised as liabilities but are contingent liabilities. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(s) Leased assets

(i) Finance leases

Finance leases transfer substantially all the risks and rewards incidental to ownership to the lessor. At the commencement of the finance lease term, the Company recognises its right of use and obligation under a finance lease as an asset and a liability at the amount equal to the fair value of the leased asset, or if lower, at the present value of the minimum lease payments calculated using the interest rate implicit in the lease. 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

Operating leases do not transfer substantially all the risks and rewards of ownership to the lessor. Payments under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease. Rental payments under operating leases are charged to the profit and loss account as they accrue.

(t) Equity

The Company's equity shares are wholly owned by CIÉ. Ordinary called up share capital and revenue reserves are classified as equity and set out in the notes to the financial statements.

(u) Critical accounting estimates and assumptions

Estimates and judgements made in the process of preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors make estimates and assumptions concerning the future in the process of preparing the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas involving a higher degree of judgement and complexity and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible and intangible fixed assets

The annual amortisation charge for intangible fixed assets and the depreciation charge for tangible fixed assets are sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. The useful economic lives for each class of intangible fixed and tangible fixed assets are set out above. The carrying amount of tangible and intangible fixed assets for each class of assets is set out in notes 12 and 13.

Notes to the Financial Statements (continued)

(ii) Defined benefit pension scheme

The CIÉ group, of which the Company is a member, has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including assumptions in respect of; life expectancy, salary increases, and the discount rate on corporate bonds. Further details are set out in note 24.

(iii) Third party and employer liability claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Company.

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.

Further details are set out in note 19 to the financial statements.

Notes to the Financial Statements (continued)

2. Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company and the CIÉ Group ("the Group"), of which the Company is a member, will have adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

The Group has provided a letter of financial support to the Company which confirms that the Group will "provide the financial support necessary to permit the Company to continue operating and liquidating its liabilities in the normal course of business for at least a period of twelve months after the date of signing the financial statements. In the event of default by any CIE subsidiary undertaking who owe amounts to the Company, the Parent will compensate for losses incurred".

Background

Company

At 31 December 2016 the Iarnród Éireann had net assets of €41m (2015: €44m) and net current liabilities of €189m (2015: €211m).

Net current liabilities include non-cash items of €195 million (2015: €208 million) relating to deferred income in respect of capital grants and revenue. Therefore, excluding these non-cash items the Company has net current assets of €6 million (2015: net current liabilities €3 million).

The net assets of the Company include non-cash liabilities of €1,809 million (2015: €1,934 million) relating deferred income in respect of capital grants and revenue. Therefore, excluding these items the Company has net assets of €1,850 million (2015: €1,978 million).

Group

At 31 December 2016 the Group had net liabilities of €585 million (2015: €206 million) and net current liabilities of €233 million (2015: €275 million).

The net current liabilities include non-cash items of €289 million (2015: €274 million) relating to deferred income in respect of capital grants, deferred revenue and amounts repayable to funding agencies in respect of a VAT settlement. Therefore, excluding these non-cash items the Group has net current assets of €56 million (2015: net current liabilities €1 million).

The net liabilities of the Group include liabilities in respect of defined benefit pension obligations of €730 million (2015: €288 million) and other non-cash items of €2,621 million (2015: €2,728 million) relating to deferred income in respect of capital grants, deferred revenue and amounts repayable to funding agencies in respect of a VAT settlement. Therefore, excluding these items the Group has net current assets of €2,766 million (2015: €2,810 million).

Nature of Uncertainties Facing Group

While trading performance continued to improve during 2016 the Group continues to face a challenging business environment which gives rise to uncertainties.

While management are confident that overall financial levels including those required for the Group to meet its financial covenants will continue to be met in the forthcoming year, the Group's future performance is based on a number of challenging targets and assumptions which require constant monitoring and oversight by management.

The principle uncertainties affecting the future outlook can be summarised under the following headings:

1. Revenue

The achievement of the revenue growth targets set out in the budget for the year are based on a combination of assumptions related to increases in nominal fares, increases in passenger journeys and the mix of fares between cash and other fares. The capacity of the Group to secure the fare increases assumed in its plans is principally dependent on fare determinations by the National Transport Authority (NTA) and increases in passenger journeys is dependent on sustained economic recovery.

Notes to the Financial Statements (continued)

2. Going concern (continued)

This uncertainty is mitigated by the fare increases agreed for the current year being in line with plan and by the ongoing monitoring and review of revenue performance relative to plan.

2 Operating Costs

Maintaining operating costs at appropriate levels as set out in the Group's plan remains critical. Assumptions used in preparing the business plan are by their nature subjective and it is imperative that performance against plan is monitored closely, so that mitigating actions, which have already been identified by management can be put in place if necessary.

During 2016 Bus Éireann, a subsidiary undertaking identified a range of initiatives which, when implemented during 2017 in consultation with staff, are forecast to achieve improvements, efficiencies and reductions in costs which will be sufficient to return Bus Éireann to a financially sustainable position. While there are uncertainties associated with the timing of the achievement of these measures, Bus Éireann has the capacity to fund the costs of transition and the transition period during which these initiatives are being implemented. In addition, during 2016 Bus Átha Cliath, a subsidiary undertaking incurred cost increases in respect of a pay agreement reached with staff.

These uncertainties are mitigated by monitoring and review of cost performance relative to plan. In respect of Bus Éireann, the range of initiatives to be implemented have now been agreed with staff.

3 Investment Costs

Achieving the appropriate level of investment in the maintenance, renewal and enhancement of public transport infrastructure is critical to underpinning the provision of safe, effective and reliable public transport services. Ensuring that necessary investment is appropriately funded is a continuing challenge for management so that the investment demand of the Group's operations does not undermine the financial sustainability of the Group.

The Group's plans for 2017 are subject to additional capital expenditure funding support from the Department of Transport, Tourism and Sport ("DTTaS") and the NTA and also envisage funding investment from operating cash flows.

The Group's sustainability in the longer term is dependent on an appropriate level of government funding being in place to fund the public transport services that are required under the Group's Public Service Obligation contracts.

The Group's sustainability is particularly sensitive to uncertainty associated with funding future investment. During 2016 Iarnród Éireann and the NTA refreshed their review and evaluation of possible solutions to Iarnród Éireann's financial requirements. The additional Government funding provision which was approved in December 2016, combined with the commitments received in respect of 2017 funding, provides the cash flow capacity to fund the investment requirements – both capital and maintenance - of Iarnród Éireann in 2017.

Funding of investment requirements in the longer term remains a significant challenge for all stakeholders. Should there be a shortfall in levels of funding; the risk that the Group may not generate sufficient cash flows to protect its financial stability during the life of the current 5-year business plan arises. In that event, working capital will become constrained requiring constant monitoring. Mitigating actions would be required to ensure that the overall financial covenant, to which the Group is committed, are not breached and that sufficient cash-flow is generated after investment to meet obligations as they fall due.

As mitigation, the Group manages the authorization of material investments and seeks confirmation of appropriate funding being in place from the DTTaS/NTA prior to the commencement of those investments.

In respect of the Group's Public Service Obligation contracts, the contracts with Dublin Bus and Bus Éireann were signed in December 2014 and are for a period of 5 years, to 2019. In the case of Iarnród Éireann, the current contract was signed in December 2009 and is for a period of 10 years, to 2019.

4. Liquidity

In July 2013 the Group successfully completed negotiations with the Group's banks in relation to re-financing and increasing the banking facilities available to the Group. Committed facilities of €160 million were secured up to July

Notes to the Financial Statements (continued)

2018, of which €39 million has subsequently been repaid and is not available to be redrawn under the Group's term loan facility. At 31 December 2016 the Group had drawn down €41 million under the term loan facilities. The undrawn amount available to the Group under the Group's revolving credit facilities was €80 million.

These facilities contain a number of financial covenants, all of which have been met by the Group in 2016. Management expect that the Group will continue to meet the covenants set out in the facility agreement for the period of at least 12 months from the date of approval of these financial statements.

The Group continuously monitors the actual and forecast use of its banking facilities and adherence to the financial covenants within its facilities.

5 Pensions

The Group's pension schemes are in deficit, the liability position of the pension schemes increased significantly in the year. The increase in liability arose mainly as a result of the low interest rate environment prevailing in Ireland and internationally. Financial markets remain volatile, the Schemes continue to be exposed to significant movements in the underlying interest rates under which liabilities are measured and the valuation of assets held by the schemes. The ongoing volatility in the valuation of the schemes require careful monitoring and the identification of measures which can be implemented, on an agreed basis, to reduce the risk in relation to the schemes.

The Group considers that the appropriate long –term mitigation for this risk is to de-risk the schemes in consultation with staff, CIÉ is engaging with its staff to identify and agree on measures which are designed to de-risk the schemes. The Group manages its budgets to ensure that, in the short-term, the cash implications of its pension obligations are accounted for appropriately.

Management's Actions

In addition to the mitigations outlined above the Group and CIÉ management have taken and are continuing to take a number of actions, including:

- Continuous review of risks and opportunities affecting the Group's business plan.
- Discussions with the NTA and DTTaS on the appropriate funding structure/net financial effect for Iarnród Éireann, Bus Éireann and Bus Átha Cliath.
- Continued implementation and rigorous monitoring of cost saving initiatives.
- Close monitoring by management of the daily, weekly and monthly cash position across the Group.
- Implementation of revenue protection initiatives and seeking new revenue generating activities.

Letter of Support

The ongoing support from the DTTaS has been evidenced in the letter of support dated 29 June 2017.

The letter states: "the Department of Transport, Tourism and Sport continues to monitor the financial position of CIÉ and is engaging with CIÉ in relation to measures necessary to safeguard CIÉ's financial sustainability" Whilst the letter states that nothing contained in the letter can be construed as a guarantee of the obligations or liabilities of CIÉ, it also states: "It remains Government policy that the business of CIÉ is at all times in a position to meet its liabilities" and that "the State will continue to exercise its shareholder rights with a view to ensuring that CIÉ manages its operations in a manner that will enable it to meet all its obligations in a timely manner. Any action to be considered by the State however would have to be in compliance with EU law, including State Aid rules which may require EU Commission notification and approval".

Conclusion

Having made due enquiries, and considering the uncertainties and mitigations described above for the Company and the Group, the Board of Directors have a reasonable expectation that the cash flow generating from the Company and Group's trading activities and its existing banking facilities will be sufficient to fund the ongoing cash flow needs of the Company and the Group, and to meet the Group's financial covenants under the Group's banking facilities agreements for the period of at least 12 months from the date of approval of these financial statements.

Notes to the Financial Statements (continued)

2. Going concern (continued)

They also have a reasonable expectation that the Government will support measures to ensure financial stability.

Taking account of all of the above, the Board of Directors have concluded that the risks described above do not represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.

The Board of Directors, having regard to the above, have a reasonable expectation that the Company will have adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements and consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

3. Divisional analysis of profit and loss account

(A) Railway Undertaking

	2016 €'000	2015 €'000
Sources of revenue		
Revenue	206,439	195,640
Public Service Obligation	110,640	98,161
Other exchequer funding	–	55
Total revenue	**317,079**	**293,856**
Operating costs		
Payroll and related costs	(124,349)	(123,142)
Materials and services	(74,742)	(66,898)
Fuel	(34,429)	(36,643)
Total operating costs	**(233,520)**	**(226,683)**
Operating surplus before track access charges	**83,559**	**67,173**
Track access charge	(66,480)	(41,420)
EBITDA before exceptional operating costs	**17,079**	**25,753**
Exceptional costs	(632)	(854)
Depreciation and amortisation, net of capital grants amortised	(18,430)	(24,042)
Profit on sale of tangible fixed assets	(1)	17
(Deficit)/Surplus before interest and taxation	**(1,984)**	**874**
Interest payable and similar charges	(1,250)	(1,450)
Deficit for the year on ordinary activities before taxation	**(3,234)**	**(576)**
Taxation on deficit on ordinary activities	–	–
Deficit for the year on ordinary activities after taxation	**(3,234)**	**(576)**

Notes to the Financial Statements (continued)

3. Divisional analysis of profit and loss account (continued)

3. Divisional analysis of profit and loss account (continued)

(B) Railway Infrastructure manager

	2016 €'000	2015 €'000
In compliance with EU Council Directive 91/440 the costs of the Railway Infrastructure Division have been computed as follows:		
Sources of revenue		
Multi Annual Contract	104,586	112,889
Track access charges	68,020	42,860
Other exchequer grants	7,048	–
Third party revenue	19,275	19,606
Total revenue	**198,929**	**175,355**
Operating costs revenue		
Payroll and related costs	(104,044)	(97,027)
Materials and services	(90,803)	(78,783)
Fuel	(80)	(78)
Total operating costs	**(194,927)**	**(175,888)**
EBITDA before exceptional operating costs	**4,002**	**(533)**
Exceptional costs	(311)	(695)
Depreciation and amortisation, net of capital grants amortised	(5,213)	(7,261)
Profit/(loss) on sale of tangible fixed assets	3	(22)
Deficit before interest and taxation	**(1,519)**	**(8,511)**
Interest payable and similar charges	(865)	(964)
Deficit for the year on ordinary activities before taxation	**(2,384)**	**(9,475)**
Taxation on deficit on ordinary activities	–	–
Deficit for the year on ordinary activities after taxation	**(2,384)**	**(9,475)**

Notes to the Financial Statements (continued)

3. Divisional analysis of profit and loss account (continued)

(C) Rail freight division

	2016 €'000	2015 €'000
Revenue	5,199	4,882
Total revenue	**5,199**	**4,882**
Operating costs		
Payroll and related costs	(1,065)	(1,219)
Materials and services	(2,093)	(1,962)
Fuel	(738)	(696)
Total operating costs	**(3,896)**	**(3,877)**
Operating surplus for the financial year before track access charges	**1,303**	**1,005**
Track access charges	(1,540)	(1,440)
EBITDA before exceptional operating costs	**(237)**	**(435)**
Exceptional costs	–	(259)
Depreciation	–	(13)
Profit on sale of tangible fixed assets	4	–
Deficit before interest and taxation	**(233)**	**(707)**
Interest payable and similar charges	(32)	(35)
Deficit for the year on ordinary activities before taxation	**(265)**	**(742)**
Taxation on deficit on ordinary activities	–	–
Deficit for the year on ordinary activities after taxation	**(265)**	**(742)**

Notes to the Financial Statements (continued)

3. Divisional analysis of profit and loss account (continued)

(D) Rosslare Europort division

	2016 €'000	2015 €'000
Revenue	10,543	10,439
Other Exchequer grants	952	–
Total revenue	**11,495**	**10,439**
Operating costs		
Payroll and related costs	(4,381)	(4,420)
Materials and services	(3,296)	(2,152)
Total operating costs	**(7,677)**	**(6,572)**
EBITDA before exceptional operating costs	**3,818**	**3,867**
Exceptional costs	(9)	(182)
Depreciation net of capital grants amortised	(1,265)	(1,271)
Surplus before interest and taxation	**2,544**	**2,414**
Interest payable and similar charges	(66)	(69)
Surplus for the year on ordinary activities before taxation	**2,478**	**2,345**
Taxation on surplus on ordinary activities	–	–
Surplus for the year on ordinary activities after taxation	**2,478**	**2,345**

Notes to the Financial Statements (continued)

3. Divisional analysis of profit and loss account (continued)

(E) Central and other activities

	2016 €'000	2015 €'000
Sources of revenue		
Third party revenue	3,066	3,369
Other exchequer funding	–	–
Total revenue	**3,066**	**3,369**
Operating costs		
Payroll and related costs	(7,601)	(7,763)
Materials and services	5,308	5,279
Total operating costs	**(2,293)**	**(2,484)**
EBITDA before exceptional operating costs	**773**	**885**
Exceptional costs	(178)	(120)
Depreciation	(49)	–
Surplus before interest and taxation	**546**	**765**
Taxation on surplus on ordinary activities	–	–
Surplus for the year on ordinary activities after taxation	**546**	**765**

(F) State and EU Funding

Public Service Obligation (PSO)

Each year funding is provided for socially necessary but financially unviable public transport services in Ireland, known as Public Service Obligation (PSO) services, under contract to the National Transport Authority ("NTA", "the Authority").

The funding of PSO services is governed by Public Transport Contracts between the Authority and the Company. The current contracts with Iarnród Éireann were signed in December 2009 and are for a period of 10 years, to 2019.

The contents of the contracts and the basis for maintaining them may be reviewed at any time by the NTA in consultation with the relevant Company, however, a full review of the contract must occur at the end of each 5 or 10 year period (as appropriate).

The contracts meet the current criteria set down in EU law, setting strict standards of operational performance and customer service and contain penalties for non-performance. The NTA monitors the contracted performance of each PSO operator on a quarterly basis.

Multi Annual Contract (MAC)

Iarnród Éireann's management of infrastructure is funded under EU regulation by a 5 year, Multi-Annual Contract from the Department of Transport, Tourism and Sport and track and station access charges from passenger and freight rail services.

The current contract commenced on 1 January 2014 and expires on 31 December 2018.

Notes to the Financial Statements (continued)

3. Divisional analysis of profit and loss account (continued)

This contract between Iarnród Éireann and the Minister is pursuant to Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012, Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001, Section 45 of the Public Transport Regulation Act 2009, and the European Communities (Railway Infrastructure) Regulations (SI No. 55 of 2010).

Charges in connection with the provision of the railway infrastructure by the Infrastructure Manager are payable by the Minister to the Infrastructure Manager in advance on a monthly basis.

Details of funding received in the year is set out below.

	PSO	**Infrastructure MAC**	**Other**	**Total**
	2016	**2016**	**2016**	**2016**
Allocated in the profit and loss account to:				
Rail Operations	110,640	–	–	110,640
Infrastructure	–	104,586	7,048	111,634
Other activities	–	–	952	952
	110,640	**104,586**	**8,000**	**223,226**
Sources				
State grants – PSO	110,640	–	–	110,640
State grants – multi annual contract	–	104,586	–	104,586
State grants – Technical assistance	–	–	–	–
State grants – other	–	–	8,000	8,000
	110,640	**104,586**	**8,000**	**223,226**

	PSO	**Infrastructure MAC**	**Other**	**Total**
	2015	**2015**	**2015**	**2015**
Allocated in the profit and loss account to:				
Rail Operations	98,161	–	55	98,216
Infrastructure	–	112,889	–	112,889
Other activities	–	–	–	–
	98,161	**112,889**	**55**	**211,105**
Sources				
State grants – PSO	98,161	–	–	98,161
State grants – multi annual contract	–	112,889	–	112,889
State grants – Technical assistance	–	–	55	55
State grants – other	–	–	–	–
	98,161	**112,889**	**55**	**211,105**

Notes to the Financial Statements (continued)

3. *Divisional analysis of profit and loss account (continued)*

(G) Net Surplus / (deficit) by activity

	Railway Undertaking €'000	Infrastructure Manager €'000	Rail Freight €'000	Other Commercial Activities €'000	Intra	Total €'000
2016						
Revenue*	206,439	87,295	5,199	13,609	(68,020)	244,522
Receipts from PSO	110,640	–	–	–	–	110,640
Other exchequer	–	111,634	–	952		112,586
Costs*	(320,313)	(201,313)	(5,464)	(11,537)	68,020	(470,607)
(Deficit)/surplus for the year	**(3,234)**	**(2,384)**	**(265)**	**3,024**	**–**	**(2,859)**
2015						
Revenue*	195,640	62,466	4,882	13,808	(42,860)	233,936
Receipts from PSO	98,161	–	–	–	–	98,161
Other exchequer	55	112,889	–	–	–	112,944
Costs*	(294,432)	(184,830)	(5,624)	(10,698)	42,860	(452,724)
(Deficit)/surplus for the year	**(576)**	**(9,475)**	**(742)**	**3,110**	**–**	**(7,683)**

Revenue and costs include internal track access charges of €68.020m (2015: €42.860m).

Notes to the Financial Statements (continued)

4. Balance Sheet by Business

(A) Railway Undertaking

	2016 €'000	2015 €'000
Fixed Assets		
Intangible assets	554	869
Tangible assets	585,721	647,318
	586,275	**648,187**
Current Assets		
Stocks	32,973	34,305
Debtors	8,879	8,511
Cash at bank and in hand	1,119	1,190
	42,971	**44,006**
Creditors (amounts falling due within one year)		
Finance lease		–
Intra IÉ business	(31,854)	(33,288)
Deferred income	(98,339)	(84,692)
Other creditors	(42,658)	(44,183)
	(172,851)	**(162,163)**
Net Current Liabilities	**(129,880)**	**(118,157)**
Total Assets less Current Liabilities	**456,395**	**530,030**
Deferred income	(441,217)	(511,885)
Provisions for liabilities and charges	(31,942)	(30,750)
Net Liabilities	**(15,839)**	**(12,605)**

Notes to the Financial Statements (continued)

4. Balance Sheet by Business (continued)

(B) Railway infrastructure Manager

	2016 €'000	2015 €'000
Fixed Assets		
Intangible assets	856	956
Tangible assets	1,294,573	1,368,273
	1,295,429	**1,369,229**
Current Assets		
Stocks	18,363	15,216
Debtors	2,699	1,547
	21,062	**16,763**
Creditors (amounts falling due within one year)		
Intra IÉ business	(32,278)	(33,355)
Deferred income	(75,805)	(103,493)
Other creditors	(36,964)	(32,311)
	(145,047)	**(169,159)**
Net Current Liabilities	**(123,985)**	**(152,396)**
Total Assets less Current Liabilities	**1,171,444**	**1,216,833**
Deferred income	(1,164,171)	(1,205,706)
Provisions for liabilities and charges	(28,328)	(29,797)
Net Liabilities	**(21,055)**	**(18,670)**

Notes to the Financial Statements (continued)

4. Balance Sheet by Business (continued)

(C) Rail freight division

	2016 €'000	2015 €'000
Fixed Assets		
Tangible assets	–	–
	–	**–**
Current Assets		
Debtors	726	696
	726	**696**
Creditors (amounts falling due within one year)		
Intra IÉ business	(4,794)	(4,608)
Other creditors	(245)	(198)
	(5,039)	**(4,806)**
Net Current Liabilities	**(4,313)**	**(4,110)**
Total Assets less Current Liabilities	**(4,313)**	**(4,110)**
Provisions for liabilities and charges	(148)	(86)
Net Liabilities	**(4,461)**	**(4,196)**

Notes to the Financial Statements (continued)

4. Balance Sheet by Business (continued)

(D) Europort division

	2016 €'000	2015 €'000
Fixed Assets		
Tangible assets	32,828	33,946
	32,828	**33,946**
Current Assets		
Debtors	1,532	1,255
	1,532	**1,255**
Creditors (amounts falling due within one year)		
Intra IÉ business	(16,473)	(19,672)
Deferred income	(310)	(310)
Other creditors	(624)	(661)
	(17,407)	**(20,643)**
Net Current Liabilities	**(15,875)**	**(19,388)**
Total Assets less Current Liabilities	**16,952**	**14,558**
Deferred income	(8,354)	(8,665)
Provisions for liabilities and charges	(679)	(452)
Net Assets	**7,920**	**5,441**

Notes to the Financial Statements (continued)

4. *Balance Sheet by Business (continued)*

(E) Central and other activities

	2016 €'000	2015 €'000
Fixed Assets		
Intangible assets	199	–
Tangible assets	206	397
	405	**397**
Current Assets		
Stocks		–
Debtors	12,027	8,803
Cash at bank and in hand	903	342
	12,930	**9,145**
Creditors (amounts falling due within one year)		
Overdraft	–	(1,361)
Intra IÉ business	85,400	90,923
Other creditors	(13,060)	(15,355)
	72,340	**74,207**
Net Current Assets	**85,270**	**83,352**
Total Assets less Current Liabilities	**85,675**	**83,749**
Creditors (amounts falling due after more than one year)		
Provisions for liabilities and charges	(11,103)	(9,722)
Deferred income	(16)	(17)
Net Assets	**74,556**	**74,010**

Notes to the Financial Statements (continued)

5. Payroll and related costs

(i) Employees

	2016 €'000	2015 €'000
Staff costs (excluding restructuring costs)		
Wages and salaries	208,861	204,266
Social insurance costs	19,327	19,303
Other retirement benefit costs	26,058	25,337
Gross Staff costs	**254,246**	**248,906**
Less: own work capitalised	(12,954)	(15,491)
Net Staff costs	**241,292**	**233,415**

(ii) Directors' emoluments

	2016 €'000	2015 €'000
– for services as director	74	75
– for executive services	75	79
	149	**154**
Total payroll and related costs	**241,441**	**233,569**

Of the total staff costs €13.0m (2015: €15.5m) has been capitalised into tangible fixed assets and €241.3m (2015: €233.4m) has been treated as an expense in the profit and loss account.

There are retirement benefits accruing to one director in 2016 and 2015 under a defined benefit scheme and the charge for the year in respect of the Company's contributions was €3,019 (2015: €3,019).

The payroll and related costs of the Chief Executive Officer which are included in the above, include gross salary of €217,086, (2015: €211,275), employer pension contribution of 25% and a car allowance of €15,005, (2015: €15,005).

Notes to the Financial Statements (continued)

5. Payroll and related costs (continued)

The directors' fees paid and payable for services as directors were as follows:

Director	2016 €	2015 €
Mr. P. Gaffney	20,970	20,520
Ms. P. Golden	998	11,970
Ms. C. Griffiths	14,520	–
Mr. M. McGreevy	14,822	–
Mr. J. Nix	–	6,983
Mr. F. Allen	6,514	11,970
Mr. F. O' Mahony	8,322	11,970
Ms. T. McGee	8,902	11,970
Total	**75,048**	**75,383**

The directors were paid the following expenses:

	2016 €	2015 €
Subsistence and Accommodation	889	2,490
Other	10,212	200
Total	**11,101**	**2,690**

(iii) Key Management compensation

Key management includes the directors and members of senior management. The compensation paid and payable to key management for employee services is shown below:

	2016 €'000	2015 €'000
Salaries and other short term benefits	1,740	1,747
Post-employment benefits	269	262
Total key management compensation	**2,009**	**2,009**

Notes to the Financial Statements (continued)

5. *Payroll and related costs (continued)*

(iv) Staff members

The average number of persons employed during the year and at the year-end by activity, were as follows:

	Staff Numbers		**Staff Numbers**	
	2016 Average	**2015 Average**	**as at 31 Dec 2016**	**as at 31 Dec 2015**
Railway Operations	2,027	2,036	2,002	2,026
Infrastructure	1,615	1,584	1,606	1,600
Central Services	88	92	87	91
Rail Freight	5	9	5	7
Rosslare Europort	71	72	72	72
Total	**3,806**	**3,793**	**3,772**	**3,796**

6. Materials and Services

	2016 €'000	**2015 €'000**
Operating and other costs	155,246	136,690
Fuel and electricity	35,247	37,413
Third party and employer's liability claims	5,376	3,122
Rates	2,031	1,755
Operating lease rentals	2,972	2,954
Total materials and services	**200,872**	**181,934**

7. Exceptional operating costs

	2016 €'000	**2015 €'000**
Restructuring		
Amounts paid and payable to employees	1,130	2,111

The exceptional costs comprise of amounts paid and payable to employees arising from restructuring initiatives during the year.

Notes to the Financial Statements (continued)

8. Depreciation and amortisation (net)

	2016 €'000	2015 €'000
Amortisation of intangible fixed assets (note 12)	421	2,041
Depreciation of tangible fixed assets (note 13)	215,781	225,372
Amortisation of capital grants (note 20)	(191,244)	(194,826)
Total depreciation and amortisation (net)	**24,958**	**32,587**

9. Interest payable and similar charges

	2016 €'000	2015 €'000
Interest payable on loan from holding Company	2,059	2,326
Finance leases interest	–	36
Other interest payable	154	156
	2,213	**2,518**
Interest apportioned:		
Railway undertaking	1,250	1,450
Railway infrastructure costs	865	964
Rail freight	32	35
Commercial operations	66	69
	2,213	**2,518**

Notes to the Financial Statements (continued)

10. Taxation

(a) Tax expense included in profit or loss

	2016 €'000	2015 €'000
Current tax:		
Irish corporation tax on profit for the financial year	–	–
Adjustments in respect of prior financial years	–	–
Current tax expense for the financial year	–	–
Deferred tax:		
Origination and reversal of timing differences	–	–
Deferred tax expense for the financial year	–	–
Tax on deficit on ordinary activities	**–**	**–**

(d) Reconciliation of tax expense

Tax assessed for the financial year differs than that determined by applying the standard rate of corporation tax in the Republic of Ireland for the financial year ended 31 December 2016 of 12.5% (2015: 12.5%) to the deficit for the year. The differences are explained below:

	2016 €'000	2015 €'000
Deficit on ordinary activities before taxation	**(2,859)**	**(7,683)**
Deficit multiplied by the standard rate of tax in the Republic of Ireland of 12.5% (2015: 12.5%)	(357)	(960)
Effects of:		
– Income not subject to tax	(51,757)	(50,924)
– Income subject to higher rate of tax	1,413	2,148
– Expenses not deductible for tax purposes	1,058	1,482
– Depreciation in excess of capital allowances	23,998	21,375
– Unrelieved tax losses brought forward not recognised	25,645	25,278
– Losses surrendered to group undertakings	–	1,153
– Other differences	–	448
Tax on deficit on ordinary activities	**–**	**–**

Deferred taxation

A potential deferred tax asset of €579m (2015: €546m) has not been recognised as the future recovery against taxable profits is uncertain.

Notes to the Financial Statements (continued)

11. Government grants

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

The National Transport Authority provided €133.1m subvention to the Railway Undertaking in 2016, €22.4m was recognised as deferred income in the balance sheet and will be amortised over the useful economic life of the related assets

Particulars of the Government grants of €296.4 million (including the €133.1m above) received in 2016 are given in the following table, including the relevant provision of EU regulations. Grants received in respect of buildings of €3.4million was transferred to the CIÉ Holding Company in 2016.

Amounts disclosed under Regulation Number 1192/69 analyse the portion of Public Service Obligation grant received to cover costs which are incurred as a result of the Railway Operations activities. Regulation Number 1192/69 relates to the common transport policy rules for the normalisation of the accounts of railway undertakings and the harmonisation of certain provisions affecting competition in transport by rail, road and inland waterways.

Amounts disclosed under Regulation Number 1370/2007 analyse the Public Service Obligation recognised in the year in the profit and loss account. Public passenger transport service by rail and road regulation defines the conditions in which the competent authorities can intervene in the area of public passenger transport to guarantee the provision of service of general economic interest and guarantee safe, efficient, attractive and high quality passenger transport.

Public Service Obligation	**EU Regulation Number**		
	1192/69 Costs €'000	**1370/2007 (revenue) €'000**	**2016 Total €'000**
Revenue related	**–**	**82,445**	**82,445**
Expenditure related			
Mainline rail			
Normalisation of accounts			
– Class III (pensions)	22,280	–	22,280
– Class IV (level crossings)	2,427	–	2,427
Subtotal Mainline rail	**24,707**	**–**	**24,707**
Suburban rail			
Normalisation of accounts			
– Class III (pensions)	3,277	–	3,277
– Class IV (level crossings)	211	–	211
Subtotal Suburban services	**3,488**	**–**	**3,488**
Subtotal Expenditure related	**28,195**	**–**	**28,195**
Total	**28,195**	**82,445**	**110,640**

Notes to the Financial Statements (continued)

11. Government grants (continued)

	€'000	€'000	2016 Total €'000
Total Public Service Obligation			110,640
State Grant for Infrastructure and Capital Investment 2012-2016 Medium-Term Exchequer Framework			185,734
Total State grants received			**296,374**
The total funding received was applied as follows:			
Profit and loss account			
– Public Service Obligation			**110,640**
– Infrastructure Manager Multi-Annual Contract (Revenue)	104,586		
– Other Exchequer funding	8,000		
– Technical Assistance	–	112,586	
Balance Sheet			
Infrastructure Manager Multi-Annual Contract (Capital)	21,414		
Deferred Capital Grants	25,948		
Public Service Obligation – Heavy maintenance funding	22,420		
Transferred to CIÉ	3,366	73,148	
State Grant for Infrastructure and Capital Investment 2012-2016 Medium-Term Exchequer Framework			**185,734**
Total State grants received			**296,374**

There are no unfulfilled conditions and other contingencies attached to grants recognised as income.

Notes to the Financial Statements (continued)

11. Government grants (continued)

Public Service Obligation	EU Regulation Number		
	1192/69 Costs €'000	1370/2007 (revenue) €'000	2015 Total €'000
Revenue related	**–**	**73,724**	**73,724**
Expenditure related			
Mainline rail			
Normalisation of accounts			
– Class III (pensions)	18,429	–	18,429
– Class IV (level crossings)	2,586	–	2,586
Subtotal Mainline rail	**21,015**	**–**	**21,015**
Suburban rail			
Normalisation of accounts			
– Class III (pensions)	3,197	–	3,197
– Class IV (level crossings)	225	–	225
Subtotal Suburban services	**3,422**	**–**	**3,422**
Subtotal Expenditure related	**24,437**		**24,437**
Total	**24,437**	**73,724**	**98,161**

Notes to the Financial Statements (continued)

11. Government grants (continued)

			2015 Total €'000
Total Public Service Obligation			98,161
State Grant for Infrastructure and Capital Investment 2012-2016 Medium-Term Exchequer Framework			210,014
Total State grants received			**308,175**
The total funding received was applied as follows:			
Profit and loss account			
– Public Service Obligation			**98,161**
– Infrastructure Manager Multi-Annual Contract (Revenue)	112,889		
– Other Exchequer funding	–		
– Technical Assistance	55	112,944	
Balance Sheet			
Infrastructure Manager Multi-Annual Contract (Capital)	31,393		
Deferred Capital Grants	65,395		
Transferred to CIÉ	282	97,070	
State Grant for Infrastructure and Capital Investment 2012-2016 Medium-Term Exchequer Framework			**210,014**
Total State grants received			**308,175**

There are no unfulfilled conditions and other contingencies attached to grants recognised as income.

Notes to the Financial Statements (continued)

12. Intangible fixed assets

	1 Jan 2016 €'000	Reclassif-ications €'000	Additions €'000	31 Dec 2016 €'000
Cost				
Computer software	24,848	(63)	206	24,991
Amortisation				
Computer software	23,024	(63)	421	23,382
Net Book Value at 31 December 2016				**1,609**

	1 Jan 2015 €'000	Reclassif-ications €'000	Additions €'000	31 Dec 2015 €'000
Cost				
Computer software	24,769	–	78	24,847
Amortisation				
Computer software	20,981	–	2,041	23,022
Net Book Value at 31 December 2015				**1,825**

Notes to the Financial Statements (continued)

13. Tangible fixed assets

	1 Jan 2016 €'000	Transfer & Reclass €'000	Additions €'000	Scrapings Disposals €'000	31 Dec 2016 €'000
Cost					
Railway lines and works	2,176,435	–	23,525	–	2,199,960
Assets under construction	5,456	(5,435)	–	–	21
Railway rolling stock	1,409,164	–	35,527	(41,399)	1,403,292
Road freight vehicles	2,893	–	–	–	2,893
Plant and machinery	508,243	–	15,536	(3,001)	520,778
Signalling	617,050	–	9,819	–	626,869
Docks, harbours and wharves	56,968	–	202	(35)	57,135
Catering equipment	926	–	–	–	926
Land and Buildings	8,852	–	2	–	8,854
Total	**4,785,987**	**(5,435)**	**84,611**	**(44,435)**	**4,820,728**
Depreciation					
Railway lines and works	1,263,646	–	75,356	–	1,339,001
Assets under construction	–	–	–	–	–
Railway rolling stock	819,055	–	88,086	(41,399)	865,742
Road freight vehicles	2,893	–	–	–	2,893
Plant and machinery	365,590	–	29,940	(3,001)	392,529
Signalling	258,299	–	20,884	–	279,183
Docks, harbours and wharves	24,179	–	1,415	(35)	25,559
Catering equipment	926	–	–	–	926
Land and Buildings	1,466	–	100	–	1,566
Total	**2,736,054**	**–**	**215,781**	**(44,435)**	**2,907,399**

Notes to the Financial Statements (continued)

13. Tangible fixed assets (continued)

	1 Jan 2015 €'000	Transfer & Reclass €'000	Additions €'000	Scrapings Disposals €'000	31 Dec 2015 €'000
Cost					
Railway lines and works	2,156,760	–	35,127	(15,452)	2,176,435
Assets under construction	2,760	–	2,696	–	5,456
Railway rolling stock	1,482,942	52	33,658	(107,488)	1,409,164
Road freight vehicles	2,893	–	–	–	2,893
Plant and machinery	492,013	(52)	16,282	–	508,243
Signalling	603,087	–	13,963	–	617,050
Docks, harbours and wharves	56,486	–	482	–	56,968
Catering equipment	926	–	–	–	926
Land and Buildings	6,015	–	2,837	–	8,852
Total	**4,803,882**	**–**	**105,045**	**(122,940)**	**4,785,987**
Depreciation					
Railway lines and works	1,193,320	–	84,300	(13,974)	1,263,646
Assets under construction	–	–	–	–	–
Railway rolling stock	839,149	(61)	87,455	(107,488)	819,055
Road freight vehicles	2,893	–	–	–	2,893
Plant and machinery	332,577	61	32,952	–	365,590
Signalling	239,204	–	19,095	–	258,299
Docks, harbours and wharves	22,829	–	1,350	–	24,179
Catering equipment	926	–	–	–	926
Land and Buildings	1,246	–	220	–	1,466
Total	**2,632,144**	**–**	**225,372**	**(121,462)**	**2,736,054**

Notes to the Financial Statements (continued)

13. *Tangible fixed assets (continued)*

	31 Dec 2016 €'000	31 Dec 2015 €'000
Net Book Amounts		
Railway lines and works	860,959	912,789
Assets under construction	21	5,456
Railway rolling stock	537,550	590,109
Road freight vehicles	–	–
Plant and machinery	128,249	142,653
Signalling	347,686	358,751
Docks, harbours and wharves	31,576	32,789
Catering equipment	–	–
Land and Buildings	7,288	7,386
Total	**1,913,329**	**2,049,933**

Of the total staff costs €13.0m (2015: €15.5m) has been capitalised into tangible fixed assets.

14. Financial assets

	2016 €'000	2015 €'000
Listed shares		
Cost or valuation at 1 January	–	63
Provision for permanent diminution in value at 31 December	–	–
Disposal	–	(63)
Net book amounts at 31 December	**–**	**–**

Notes to the Financial Statements (continued)

15. Stocks

	2016 €'000	2015 €'000
Rolling stock, spare parts and maintenance materials	24,108	22,565
Infrastructure stocks	18,319	15,190
Fuel, lubricants and other sundry stocks	8,909	11,767
Total	**51,336**	**49,522**

Stocks utilised in the reporting period		
Materials	47,489	46,938
Fuel	31,793	34,222
Total	**79,282**	**81,160**

Amounts included in stocks include parts and components necessarily held to meet long-term operational requirements.

There is no significant difference between the replacement cost of stock and their carrying amounts.

An impairment loss of €73,000 (2015: credit €19,000) has been recognised in profit and loss in relation to obsolete and damaged stocks.

16. Debtors

	2016 €'000	2015 €'000
Trade debtors	10,012	10,343
Amounts owed by parent undertaking	10,357	7,587
Prepayments and accrued income	5,494	2,883
Total	**25,863**	**20,813**

Trade debtors are after provision for impairment of €0.3m (2015: €0.4m).

The amounts owed by the parent undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand

Notes to the Financial Statements (continued)

17. Creditors amounts falling due within one year

	2016 €'000	2015 €'000
Creditors (Amounts falling due within one year)		
Bank overdraft	–	171
Trade creditors	39,869	33,685
Income tax deducted under PAYE	3,469	3,883
Pay related social insurance	2,565	2,948
Universal social charge	848	1,226
Value added tax	3,135	4,017
Withholding tax	493	556
Deferred revenue	21,226	19,657
Other creditors	9,723	10,091
Accruals	12,223	17,116
Deferred income (note 20)	174,455	188,497
	268,006	**281,845**
Creditors for taxation and social welfare included above	**10,510**	**12,630**

Trade and other creditors are payable at various dates in the three months after the end of the financial year in accordance with the creditors usual and customary credit terms.

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Creditors for tax and social insurance are payable in the timeframe set down in the relevant legislation.

CIÉ Group operates as a single entity for VAT purposes and makes a single VAT return in respect of all Group activities. During 2016, the Revenue Commissioners agreed a revised basis for calculating the VAT liability of the CIÉ Group. This agreement gave rise to a settlement which reflects the implications of the activities of the Group on the basis of calculating its VAT liability from November 2002 onwards,of €53.9m.

The VAT settlement has been accounted for through the financial statements of CIÉ rather than the accounts of the individual subsidiary companies. All Group Companies agree that there is currently no basis, given the passage of time and the nature of the settlement, for determining the retrospective allocation of the VAT refund between CIÉ Group Companies. A detailed and resource intensive review would be required to establish a reasonable allocation basis. A cost/ benefit analysis of the process required was also considered and the cost was deemed to outweigh the benefit. It was therefore decided to reflect the refund in the CIÉ Group Accounts rather than the accounts of the individual subsidiary companies.

Further details in relation to this VAT repayment are included in the CIÉ Group Accounts for 2016. This can be found on the CIÉ website at www.CIE.ie.

Notes to the Financial Statements (continued)

18. Lease Obligations

(a) Finance leases

	2016 €'000	2015 €'000
The future minimum lease payments are as follows:		
Not later than one year	–	–
Total	**–**	**–**

(b) Operating leases

	2016 €'000	2015 €'000
Road vehicles		
Future minimum lease payments under non-cancellable operating leases at the end of the financial year were:		
Within one year	1,554	655
Between one and five years	3,539	1,008
Total	**5,093**	**1,663**

19. Provisions for Liabilities

	Restructuring Provision €'000	Third Party & Employer's Claims & Related Recoveries €'000	Other Provisions €'000	Total €'000
Balance at 1 January 2015	5,697	44,692	24,046	74,435
Utilised during the financial year	(4,529)	(2,714)	(2,465)	(9,708)
Profit and loss account	2,076	3,122	413	5,611
Balance at 31 December 2015	**3,244**	**45,100**	**21,994**	**70,338**
Balance at 1 January 2016	3,244	45,100	21,994	70,338
Utilised during the financial year	(1,684)	(2,660)	3,284	(1,060)
Profit and loss account	1,191	5,376	(4,571)	1,996
Balance at 31 December 2016	**2,751**	**47,816**	**20,707**	**71,274**

Restructuring provision

The restructuring provision relates to the implementation of continuing cost saving initiatives.

Notes to the Financial Statements (continued)

19. Provisions for Liabilities *(continued)*

Other provision

At 31 December 2016 there was €21.6m (2015: €22m) of other provisions, €4.0m (2015:€5.0m) related to unresolved third party disputes, €4.0m (2015: €3.7m) related to legal claims, €12.6m (2015:€12.6m) related to post-retirement benefit costs and €1.0m (2015: €0.7m) relate to other pay related disputes.

Third party and employer's liability claims and related recoveries

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

The provisions that have been recorded represent the directors' best estimate of the expenditure required to settle the obligations, with the benefit of legal advice.

The nature of these claims means that there is some uncertainty with regard to the value that they will be settled at. If the outcomes of the claims are different to the assumptions underpinning the directors' best estimates then a further liability may arise.

CIÉ as a self-regulated body operates a self-insurance model whereby the Operating Company's bear the financial risk associated with the costs of claims, subject to any-one incident and annual insurance caps in the case of Third Party claims.

Provision is made at the year-end for the estimated cost of claims incurred but not settled 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 in settling claims. 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 unpaid claims the Company uses a variety of estimation techniques, including 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 cause distortion in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including, for example, changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, changes in the legal environment, the effect of inflation, changes in mix of claims 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 are recognised 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 having regard to notification from the Company's brokers of any re-insurers in run off.

Notes to the Financial Statements (continued)

20. Deferred Income

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

	1 Jan 2016 €'000	Transfers & disposals €'000	Received & receivable €'000	Profit & loss A/C €'000	31 Dec 2016 €'000
Capital Grants					
Land and buildings	1,358	13	1	(55)	1,317
Assets under construction	5,026	(5,095)	69	–	–
Railway lines and works	905,163	–	23,850	(74,712)	854,301
Railway rolling stock	544,519	–	22,420	(71,734)	495,205
Plant and machinery	125,597	–	13,698	(25,920)	113,375
Signalling	324,130	–	9,732	(18,513)	315,349
Docks, harbours and wharves	8,976	–	–	(310)	8,666
Total	**1,914,769**	**(5,082)**	**69,770**	**(191,244)**	**1,788,213**

	1 Jan 2015 €'000	Transfers & disposals €'000	Received & receivable €'000	Profit & loss A/C €'000	31 Dec 2015 €'000
Capital Grants					
Land and buildings	1,277	–	133	(52)	1,358
Assets under construction	2,453	–	2,573	–	5,026
Railway lines and works	951,217	(1,446)	38,182	(82,790)	905,163
Railway rolling stock	583,163	–	28,719	(67,363)	544,519
Plant and machinery	139,562	–	13,899	(27,864)	125,597
Signalling	327,295	–	13,282	(16,447)	324,130
Docks, harbours and wharves	9,286	–	–	(310)	8,976
Total	**2,014,253**	**(1,446)**	**96,788**	**(194,826)**	**1,914,769**

	2016 €'000	2015 €'000
Deferred Income		
– amounts falling due within one year	174,455	188,497
– amounts falling due after more than one year	1,613,758	1,726,272
	1,788,213	**1,914,769**

Notes to the Financial Statements (continued)

21. Share capital and reserves

	2016 €'000	2015 €'000
Authorised:		
153,000,000 Ordinary shares of €1.27* each	194,270	194,270
Allotted, called up and fully paid- presented as equity		
At 1 January and 31 December, 153,000,000 Ordinary shares of €1.27* each	194,270	194,270

*(£1 IEP = €1.269738 EUR)

There is a single class of equity shares. There are no restrictions on the distribution of dividends and the repayment of capital. All shares carry equal voting rights and rank for dividends to the extent to which the total amount on each share is paid up.

22. Notes to the statement of cash flow

	2016 €'000	2015 €'000
Deficit for the year before interest and taxation	(645)	(5,165)
(Loss)/Profit on disposal of tangible fixed assets	(7)	5
Depreciation on tangible fixed assets	215,781	225,372
Amortisation for intangible fixed assets	421	2,041
Amortisation of capital grants	(191,244)	(194,826)
Increase in stocks	(1,815)	(1,990)
Increase in debtors	(2,280)	(950)
Increase in creditors and provisions	1,116	6,329
Net cash generated from operating activities	**21,327**	**30,816**

23. Capital Commitments

	2016 €'000	2015 €'000
At 31 December, the Company has the following capital commitments:		
Contractual commitments for the acquisition of tangible fixed assets	14,010	18,193
Capital expenditure on tangible fixed assets authorised by the directors but not contracted for	153,430	211,170

A significant element of the capital commitments listed above are subject to state funding being made available

24. Post-Employment Benefits

The CIÉ Group operates two defined benefit plans (the CIÉ Pension Scheme for Regular Wages Staff and CIÉ Superannuation Scheme 1951 (Amendment) Scheme 2000 defined benefit plan) for employees of the CIÉ group. The employees of Iarnród Éireann are members of Córas Iompair Éireann Group pension schemes. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method.

The rules of the schemes do not specify how any surplus or deficit should be allocated among participating employers and there is no contractual agreement or stated policy for allocating the net defined benefit cost to the individual group entities. Accordingly, the net defined benefit cost for the schemes as a whole are recognised in the separate financial statements of CIÉ as in the absence of a formal contractual arrangement the directors believe that this is entity that is legally responsible for the schemes. The other participating entities, including Iarnród Éireann recognise a cost equal to their contribution for the period.

The valuations of the schemes under FRS 102 as at 31 December 2016 showed a deficit of €730million, (2015: €288 million). The disclosures required under FRS 102 in respect of the group's defined benefit schemes, in which the Company participates, are set out in the financial statements of CIÉ for the year ended 31 December 2015 which are publicly available from CIÉ, Heuston Station, Dublin 8.

The Company's pension cost for the year under the defined benefit schemes was €26.1 million (2015: €25.3 million) and these costs are included in note 5. The Company cost comprises of contribution payable for the year.

25. Guarantees and contingent liabilities

Pending Litigation

The Company, from time to time, is party to various legal proceedings relating to commercial matters which are being handled and defended in the ordinary course of business. The status of pending or threatened proceedings is reviewed with CIÉ's group legal counsel on a regular basis. 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.

Bank borrowings

The CIÉ Group has borrowings of €40.0 million (2015: €53.6 million) at the balance sheet date. These borrowings are cross guaranteed by Iarnród Éireann and the other subsidiaries in the CIÉ Group.

26. Related party transactions

In the ordinary course of business the Company purchases goods and services from entities controlled by the Irish Government, the principle of these being An Post, Bank of Ireland and National Transport Authority. The directors are of the opinion that the quantum of these purchases is not material in relation to the Company's business.

The Company is exempt from the disclosure requirements of paragraph 33.9 in relation to transactions with those entities that are a related party by virtue of the fact that the same state has control, joint control or significant influence over both the reporting entity and the other entity.

27. Membership of Córas Iompair Éireann Group

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

Some group wide functions such as Treasury, Legal, Property and Pensions are carried out by the Holding Company on a shared services basis. Copies of the CIÉ consolidated financial statements can be obtained from the Company Secretary at Heuston Station, Dublin 8, Ireland.

28. Approval of financial statements

The directors approved the financial statements on 29th June 2017.

Contact Info

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