

Annual Report and Financial Statements 2005



Tragic Accident

On the afternoon of the 23rd of May, 2005 a Bus Éireann school bus travelling from the town of Navan in County Meath was involved in a tragic accident near Kentstown, Co. Meath.

Five young schoolgirls, Lisa Callan, Sinéad Ledwidge, Aimee McCabe, Claire McCluskey and Deirdre Scanlon lost their lives.

The accident has caused great suffering for the families and friends of the girls, and also to the other passengers on the school bus at the time.

Bus Éireann extends its deepest sympathies to the bereaved on their loss and is committed to continuing to assist those affected by the tragedy.

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

Main Cover Photo: Busáras, Dublin

Photographer: Mark McCall

Design: firstimpression

Operations Review

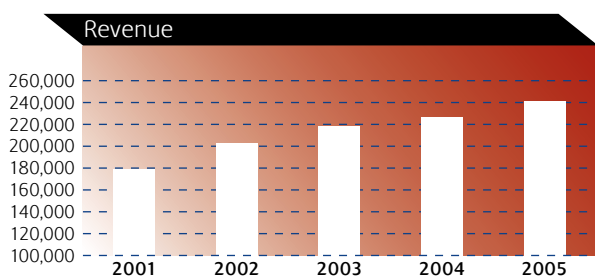
FINANCIAL PERFORMANCE

Surplus of €3.5 million recorded, Revenue reaches record €241 million

In 2005, Bus Éireann performed strongly, reflecting the continued growth of recent years.

A surplus of €3.5 million was recorded, along with a growth in revenue to €241 million, up from €227 million in 2004.

Revenue has grown consistently in recent years.



The financial performance of Bus Éireann has turned around since 2002, when losses of €9.4 million were recorded.

The current robust profitable financial position of the company has been achieved through strong financial controls and the introduction of more efficient work practices. It was achieved alongside a continued expansion by the company in its range of services, including social services, whilst having to contend with the ever-growing problem of traffic congestion.

Level of subvention

Bus Éireann received a subvention from the State, as payment for its Public Service Obligation (PSO), of €25.2 million in 2005. This is one of the lowest subsidy levels amongst European public bus companies. The subvention does not cover the full cost of providing social services. The shortfall was provided by Bus Éireann with €4.1 million of its own funds generated on other commercial activities.

Bus Éireann and the Department of Transport agreed a Memorandum of Understanding on Service Levels and Targets for 2005 which included the level of State support. The company surpassed all the performance targets set out in this Memorandum.

Contributor to the Exchequer

The company is also a major contributor to the Exchequer through the payment of VAT, PAYE, PRSI contributions, which are in excess of €25 million.

Major Employer

Bus Éireann is a large national employer with a total workforce of 2,758.

A further 1,700 suppliers are contracted into the School Transport Scheme. The business activities of the company also create employment for people in many other sectors who supply Bus Éireann with goods and services.

FOCUS ON CUSTOMERS

Customers Numbers up to a record 93 million

Bus Éireann grew customer numbers to a record 93 million in 2005, representing an average increase of 3% over total services on 2004. Increases were recorded across the board, from city services to the School Transport Scheme.

Operations Review continued

Growth in Customer Journeys

| | Year ended 31st December | | |
|--------------------------|--------------------------|---------------|-----------|
| | 2005 | 2004 | % |
| | Thousands | Thousands | Increase |
| Customer journeys | | | |
| Provincial city services | 21,574 | 21,070 | 2% |
| Other scheduled services | 27,467 | 26,693 | 3% |
| School transport scheme | 43,596 | 42,402 | 3% |
| Total | 92,637 | 90,165 | 3% |

The growth in customer journeys in 2005 is reflected in the increased vehicle kilometres operated by Bus Éireann during the same period. As shown in the table below, the company operated a total of 153.27 million vehicle kilometres in 2005, an increase of 8.8 million vehicle kilometres on 2004.

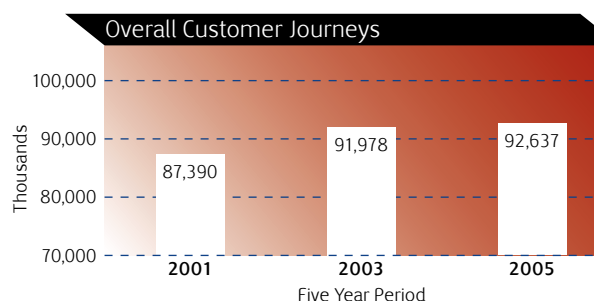
| | 2005 | 2004 | % |
|---------------------------------|----------------|----------------|-----------|
| | Thousands | Thousands | Increase |
| Vehicle kilometres | | | |
| Provincial city services | 8,236 | 8,027 | 3% |
| Other services - own | 83,074 | 77,551 | 7% |
| Other services - sub contracted | 61,960 | 58,875 | 5% |
| Total | 153,270 | 144,453 | 6% |

Consistent Five Year Growth in Customers

In the past five years, Bus Éireann has achieved growth in customer numbers on both long distance and commuter routes, in addition to its city services. Customer journeys have increased by almost 16% on expressway and commuter routes and by 8% on city services, since 2001.

| | 2005 | 2001 | % |
|---------------------------------|----------------|----------------|-------------------|
| | Thousands | Thousands | Increase |
| Customer journeys | | | |
| Provincial city services | 21,574 | 20,051 | 1,523 8% |
| Other scheduled services | 27,467 | 23,729 | 3,738 16% |
| School transport scheme | 43,596 | 43,610 | -14 -0% |
| Total | 92,637 | 87,390 | 5,247 6% |
| Vehicle kilometres | | | |
| Provincial city services | 8,236 | 7,593 | 643 8% |
| Other services - own | 83,074 | 70,457 | 12,617 18% |
| Other services - sub contracted | 61,960 | 51,591 | 10,369 20% |
| Total | 153,270 | 129,641 | 23,629 18% |

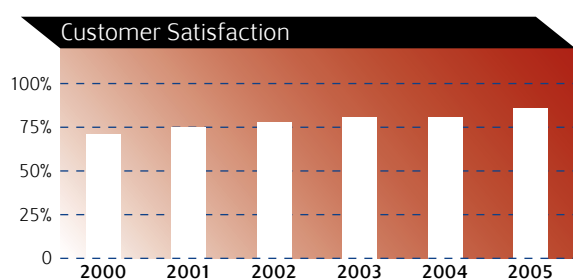
Graph showing overall customer journeys.



Operations Review continued

Customer Satisfaction Rising Steadily

The sixth independent audit of commitments given in the Bus Éireann customer charter was undertaken in 2005. A survey was carried out asking customers to rate the company's performance against the range of commitments given in the customer charter. A resulting satisfaction level of 86% was recorded, the highest result since the annual audit commenced in 2000. As the table below shows, customer satisfaction has risen steadily each year.



Customer-driven service improvements

Many improvements to the range and frequency of services were introduced in 2005 on city, commuter and Expressway services.

Shannon Airport: Service expansion

A major upgrade to Bus Éireann services in and out of Shannon airport came into effect in July, 2005 with the extension of the Galway-Limerick-Cork bus corridor to include the airport.

136 daily bus services now serve the airport, opening up access to smaller locations and providing a significant boost to tourism.

North-West: More choice

Bus services to and from West Donegal also expanded in 2005 with the introduction of a joint Bus Éireann/McGeehans coach service. The collaboration offers customers a fully integrated wide range of connecting services.

Dublin-Belfast: Now Hourly, Seven Days

In conjunction with Ulsterbus, a new hourly Dublin-Belfast service was introduced in December 2005. The service operates from 06hrs to 21hrs seven days a week and also serves Dublin Airport. The Letterkenny/Dublin and Derry/Dublin services were also extended during the year to serve Dublin Airport.

Dublin Commuter Area: More buses, more services

Commuter services in the Greater Dublin area were further expanded in 2005 to meet growing demand, with additional vehicles provided at peak times to ensure all customers are carried.

In Balbriggan, customers have benefited from the introduction in December 2005 of a new dedicated Town service. The service is aimed at providing access between the growing number of residential areas, town centre and railway station.

Cork and Limerick Commuter Areas: Growing with the City

Commuter services in Cork were enhanced with the provision of ten additional services per day on the Ballincollig route and in Limerick, city services were also improved with the introduction of improved frequencies on the Raheen and University of Limerick routes (every 10 and 15 minutes respectively).

Operations Review continued

Nightrider: More routes, more benefits

Nightrider, Bus Éireann's late night bus service, was expanded in 2005 to serve two new destinations, Wicklow and Enfield. They are in addition to late night services to and from Balbriggan, Drogheda, Dunshaughlin, Navan, Naas, Newbridge and Clane.

Customer numbers have grown significantly since the introduction of the service. The service was extended to operate six nights a week for the Christmas period, in line with demand for services.

Successful Fare Promotions

A number of attractive fare promotions were run in 2005. A successful €10 national fares promotion ran in February and was followed by travel offers on the Dublin/Belfast, Dublin/Drogheda, Dublin/Cork and Dublin/Limerick routes.

The Internet fare promotion continued, enabling customers to save 10% on tickets purchased online.

Transport Management for Special Events

Tall Ships

Bus Éireann was awarded the contract for the operation of the Park & Ride facility by Waterford City Council for the Tall Ships Event in July. 100 vehicles were involved in the operation and more than a quarter of a million people were carried safely and efficiently. The City Council, business leaders and the travelling public were all highly complimentary with regard to the smooth running of the service.

Ryder Cup

In December 2005 Bus Éireann secured an exclusive €1.3 million contract for management of transport and logistics for the Ryder Cup, which takes place in Ireland in September 2006. Bus Éireann will oversee the provision of transport for 40,000 visitors to the site at the K Club each day of the event.

Bus Priority Measures

Significant progress was made in the development of bus priority measures in Cork in 2005. The 'Green Routes' initiative between Cork City Council and Bus Éireann has led to the development of four bus lanes in the city, with more planned. Two Green Routes were introduced in 2005: the No 6 Grange/Frankfield - City service and the No 8 Curraheen - City service. These bus priority measures have assisted in maintaining the reliability of the service.

Construction commenced on two additional routes: the No 8 Mayfield-City service and the Cork Airport-City service. These are due to be completed in 2006.

Initiatives such as the Green Routes, funded by the Department of Transport under the National Development Plan, are very welcome and the company looks forward to further progress in this area.

Advances in Technology

New ticket vending machines introduced in Busáras in 2005 have significantly reduced queuing times for tickets. Customers have found them to be simple and quick to operate and they offer the full range of tickets. The machines will be rolled out in all major locations in 2006.

Customer-accessible stations

Refurbishment work was undertaken at a range of bus stations in 2005, in order to enhance access for mobility-impaired customers. The projects were funded by the Irish government under the National Development Plan 2000-2006. The stations which benefited from accessibility projects were Busáras, Parnell Place bus station in Cork, Tralee and Cavan.

Operations Review continued

School Transport

In 2005, Bus Éireann worked intensively with the Department of Education and Science and the Department of Transport in relation to the following range of initiatives to enhance the quality and safety of the School Transport Scheme:

- A major review of the national School Transport Scheme network which facilitated the end of the 'three pupils for two adult seats' seating arrangements for all second level pupils by December 2005. The 'three for two' arrangement will end for all primary level pupils by December 2006. This process is currently ahead of schedule with the vast majority of all students now accommodated on a 'one for one' basis.
- Since September 2005, where buses are already fitted with safety belts, pupils are being accommodated on a 'one for one' basis in anticipation of the mandatory requirement for passengers to wear seat belts wherever fitted. That is due to come into force in May 2006.
- The procurement and hiring of additional vehicles in order to facilitate the expansion of the School Transport fleet, was necessary to create the additional seats needed to meet the above goals. Over 220 additional contractors' vehicles were hired on school transport services since the beginning of the 2005 school year for this purpose. Bus Éireann is also introducing additional vehicles to the Bus Éireann school bus fleet on an ongoing basis to meet this requirement.
- In line with Department of Education and Science and Department of Transport policy, the retro-fitting of lap belts on all seats on the Bus Éireann school bus fleet is targeted to be completed by September 2006, a process which is now underway. All private buses which provide services under the School Transport Scheme will also be required to have seatbelts fitted as a condition to the awarding of a contract for the 2006/2007 School Year. It is anticipated that this process will be completed by the end of December 2006.

- There was continuing development of a prototype Warning Flashing Light System for school buses. The area of greatest potential risk to the safety of schoolchildren who use transport has been identified as the time before children board or after they alight from the school bus. This system is intended to enhance the safety of children during this crucial period of their journey to and from school by clearly alerting motorists, using a system of flashing lights, that there are schoolchildren in the vicinity of the bus, and to approach with caution. Consideration is being given to the implications of rolling out this system nationally, and to the related measures that may need to be introduced to achieve the desired outcome.
- Some 169 new school transport services were introduced by Bus Éireann in 2005. (principally services for children with special needs as well as new services to serve an increasing number of Gael Scoileanna and Educate-Together schools).
- Additional 21 wheelchair accessible vehicles were introduced into the School Transport Fleet.

IMPROVING THE OPERATIONS

Safety and Risk Management

The safety of our customers and staff is of paramount importance to Bus Éireann. The management continues to reinforce a culture of safety throughout the company. The company continued to invest in Advanced Driver Training in 2005.

Operations Review continued

Major Bus Station Improvements

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

Cork

In Jan 2005, the refurbished Parnell Place bus station in Cork was unveiled after a €4 million re-development. The bus station was awarded a prize in the Judge's Choice category of the Cork City Centre Better Building Awards 2005.

Ballina and Sligo

Other bus station refurbishment projects completed and unveiled in 2005 were Ballina and Sligo. Both projects were designed to enhance accessibility and were funded by the National Development Plan.

Busáras

The first phase of a major refurbishment of Busáras in Dublin was completed in May. Customer facilities were upgraded with the introduction of electronic information display systems, ticket vending machines and automated doors. The overall station ambience and appearance was also substantially improved.

Tralee

The construction of a €1.8 million new bus station at Tralee Bus/Rail Station commenced in the autumn of 2005. The building will be a new, fully accessible and modern facility. The project, funded by the National Development Plan, is scheduled for completion by year end 2006.

Cavan

Refurbishment work to enhance the accessibility of Cavan Bus Station was also carried out in 2005. The cost of this project was €370,000.

Fleet Upgrades

€7.3 million was invested in fleet improvements during the year, with the purchase of 30 modern Scania coaches. 18 coaches were procured for operation on the CIÉ Tours fleet, with the remainder allocated to long distance services.

Traffic congestion and Infrastructure

Traffic congestion continues to adversely affect the reliability of Bus Éireann services, particularly at peak times. An independent study by consultants BDO Simpson Xavier found that congestion cost the company a record €20.5 million in 2005. This is as a result of traffic flows which are considerably worse than in other European countries.

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

Operations Review continued

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

However, there is a continued need to put in place wider infrastructural improvements and bus priority measures so customers can fully benefit from investment made in areas such as fleet and facilities.

Payments to Sub-contractors

The company paid over €80.1 million to sub-contractors in 2005.

This amount refers to the cost of bus hireage and outside bus maintenance.

INVESTING IN PEOPLE

Staff training and development

Bus Éireann continued its strong emphasis on staff development in 2005. The driver refresher training to the Institute of Advanced Motorist standards continued, thus reinforcing the company's safe driving and accident prevention policy.

The fourth phase of the Disability Awareness Training Programme was completed in 2005. The programme is the single biggest training programme delivered within Bus Éireann, with over 4,500 people, comprised of full time staff, part time school bus drivers and school bus contractors taking part.

The FÁS Excellence through People Certification was again awarded to the Cork Area and, continuing its support of its employees, the company launched an Employee Wellbeing Programme which also provides an external, confidential counselling service. Bus Éireann also introduced a revised policy and procedure on bullying and harassment in the workplace for all employees.

Directors and Other Information

Directors at 27th March, 2006

| | |
|--------------------------|---|
| Chairman | Dr. J.J. Lynch |
| Directors | Mrs. T. Honan Mr. J. Byrne Ms. K. Byrne Mr. J. Hegarty Mr. R. Langford Mr. B. McCamley Mr. J. Moloney |
| Chief Executive | Mr. T. Hayes |
| Secretary | Mr. M. Nolan |
| Registered Office | Broadstone, Dublin 7. |
| Telephone | 00 353 1 703 3447 |
| Facsimile | 00 353 1 886 0525 |
| Website | www.buseireann.ie |
| Registered Number | 119570 |
| Auditors | PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Wilton Place, Dublin 2. |

Report of the Directors

For the year ended 31st December, 2005

The directors present their annual report in accordance with their obligations under the Irish Companies Acts 1963 to 2005 and the Transport (Re-organisation of Córas Iompair Éireann) Act 1986. The accounts of the company and the related notes, which form part of the accounts and are included in this report, have been prepared in accordance with accounting standards generally accepted in Ireland.

Principal Activities and Financial Review

Bus Éireann is a transport management company, whose principal activities are the management and planning of an integrated network of services, using its own and sub-contractor resources. This integrated network covers long distance coach services, local, rural, commuter, provincial city and town bus services. The company is also responsible for the management and provision of the nationwide School Transport Scheme on behalf of the Department of Education and Science.

The company recorded an overall surplus after the Public Service Obligation payment of €3.53 million.

Bus Éireann grew customer numbers in 2005, with a record 93 million passenger journeys recorded during the year. Increases in customer journeys were seen across the company, from city services to the School Transport Scheme.

Turnover increased by €14.8 million to €241.3 million in a difficult year of trading with increased competition on the most lucrative elements of the network. Payroll and related costs increased 4.4% during the year in line with the increase in the national wage agreement and increased employer pension costs.

Materials and services costs increased primarily as a result of the higher costs of fuel and contractor costs.

€7.3 million was invested in fleet improvements during the year, with the purchase of 30 modern Scania coaches. 18 coaches were procured for operation on the ClÉ Tours fleet, with the remainder allocated to long distance services.

The company continues its strong focus on improving quality and efficiency of its services for all customers. In monitoring the company's performance a range of key operating and financial performance indicators are regularly reviewed by both the management and directors of the company.

A detailed review of the company's activity for the year is contained in the Operations Review on pages 3 to 9.

Results and Reserves

The financial statements for the year ended 31st December, 2005 are set out in detail on pages 17 to 30. The results for the year ended 31st December, 2005 show a surplus of €3,525,000 (2004 – surplus €5,776,000).

Internal Control and Risk Management

The Board of Bus Éireann has an Audit Review Group in place to review the annual accounts, internal controls and compliance matters, the effectiveness of internal and external audit and risk management. A risk register is maintained by the company and is updated for review by the directors and senior management on an ongoing basis.

Report of the Directors continued

Employee Participation

In 2005, twenty meetings of local employee councils took place at the company's locations throughout the country.

A meeting of the Top Group comprising the Function Heads, the full time National Trade Union Officials, the Worker Directors and one representative from each local council took place during the year.

Since its inception in 2003 the Scheme for Enterprise Partnership has proven to be a very worthwhile forum for the exchange of information between management and staff for suggestions and proposals for business development and other issues which have benefits for all. The local councils have made very practical contributions to the partnership process.

Health and Safety

The company is committed to ensuring the well-being of its employees by maintaining a safe place of work and by complying with relevant employment legislation including the Safety, Health and Welfare at Work Act, 2005.

The Bus Éireann safety advisory committee, which was established at sub board level in 2004, met on a number of occasions during the year. This group monitors the safety of the company against an annual safety plan and encourages the widest participation in safety awareness and accident prevention in the company.

EC (Late Payment) Regulation 2002

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

Equality and Diversity

This year saw the launch of the new Bus Éireann policy and procedures on bullying and harassment - *Dignity & Respect at Work in Bus Éireann*. All employees received a copy of the new booklet and there was a widespread poster campaign advertising its launch and availability.

A key activity of the Equality and Diversity function is to ensure the establishment of objective, fair and transparent Human Resources processes. In 2005 a decision was taken to commence a role-profiling project in Bus Éireann. Role profiles will ensure that the Human Resource decision-making processes are focussed on objective criteria and will provide an integrated and transparent tool for Bus Éireann's Human Resource Management. Training of all Human Resource staff in the development of role profiles was completed in 2005.

In order to support the growing diverse profile of passengers and employees and to mark National Anti-Racist Workplace week, Bus Éireann embarked on an anti-racist awareness raising campaign.

Books of Account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Bus Éireann, Broadstone, Dublin 7.

Report of the Directors continued

Directors

The directors of the company are appointed by the Chairman of Córas Iompair Éireann with the consent of the Minister for Transport. The directors during the year ended 31st December, 2005 or who have since been appointed, are set out below. Except where indicated they served as directors for the entire year.

| | |
|--------------------------|-----------------------------------|
| Dr. J.J. Lynch, Chairman | (Re-appointed 27th May, 2005) |
| Mr. J. Byrne | (Appointed 23rd September, 2005) |
| Ms. K. Byrne | (Re-appointed 27th May, 2005) |
| Mr. G. Charles | (Retired 30th November, 2005) |
| Mr. P. Cullen | (Retired 30th November, 2005) |
| Mr. J. Hegarty | (Re-appointed 29th March, 2005) |
| Mrs. T. Honan | (Re-appointed 9th February, 2005) |
| Mr. R. Langford | (Re-appointed 29th April, 2005) |
| Ms. A.M. Mannix | (Retired 30th November, 2005) |
| Mr. B. McCamley | (Appointed 1st January, 2006) |
| Mr. J. Moloney | (Appointed 1st January, 2006) |

None of the directors or the secretary held any interest in any shares or debentures of the company, its holding company or its fellow subsidiaries at any time during the year.

Code of Practice for the Governance of State Bodies

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

Auditors

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

Chief Executive

Mr. Tim Hayes succeeded Mr. Bill Lilley, who retired from the company in April 2005, as acting Chief Executive and was appointed Chief Executive in December 2005.

On behalf of the board

Dr. J.J. Lynch, Chairman

Mr. R. Langford, Director

27th March, 2006

Statement of Directors' Responsibilities

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

In preparing those financial statements the directors are required to:

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

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2005. They are also responsible for safeguarding the assets of the company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

Independent auditors' report to the members of Bus Éireann – Irish Bus

We have audited the financial statements on pages 17 to 30.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 14 in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;

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

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

Basis of Audit Opinion

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

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

Report of the Auditors continued

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31st December, 2005 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2005.

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

In our opinion, the information given in the report of the directors on pages 11 to 13 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 19, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31st December, 2005, a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers,

Chartered Accountants and Registered Auditors,
Dublin.

27th March, 2006

- A. The maintenance and integrity of the Córas Iompair Éireann website is the responsibility of the Board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- B. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal Accounting Policies

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

(A) Basis of accounting

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

(B) Tangible assets and depreciation

Tangible assets are stated at historical cost less accumulated depreciation based on that historical cost.

The bases of calculation of depreciation are as follows:

(i) Road passenger vehicles

The historical costs of road passenger vehicles other than school buses are depreciated over their expected useful lives on a reducing percentage basis which reflects the vehicles' usage throughout their lives. The historical costs of school buses are depreciated in equal annual instalments over their expected useful lives.

(ii) Plant and machinery

Plant and machinery are depreciated, by equal annual instalments, on the basis of historical cost spread over their expected useful lives.

(C) Leased assets

Operating leases

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

(D) Stocks

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

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

(E) Public Service Obligation Payments and Grants

(i) Public Service Obligation payment

Public Service Obligation payments received during the year are dealt with in the profit and loss account.

(ii) European Union and Exchequer grants

European Union (EU) and Exchequer grants which relate to capital expenditure are credited to deferred income as they become receivable. They are amortised to the profit and loss account on the same basis as the related assets are depreciated.

(F) Foreign currency

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

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

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

(G) Pensions

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

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

Profit and Loss Account

| Year ended 31st December | Notes | 2005 €000 | 2004 €000 |
|--|-------|------------------|--------------|
| Revenue | | 241,290 | 226,537 |
| Costs | | | |
| Payroll and related costs | 1 | (113,642) | (108,897) |
| Materials and services | 2 | (138,241) | (126,713) |
| Depreciation and loss on disposal of tangible assets | 3 | (11,773) | (9,843) |
| Total operating costs | | (263,656) | (245,453) |
| Deficit before interest and Public Service Obligation payment | | (22,366) | (18,916) |
| Interest receivable | | 691 | 693 |
| Deficit before Public Service Obligation payment | | (21,675) | (18,223) |
| Public Service Obligation payment | 20 | 25,200 | 23,999 |
| Surplus for the year after Public Service Obligation payment | | 3,525 | 5,776 |
| Accumulated deficit at beginning of the year | | (4,849) | (10,625) |
| Accumulated deficit at end of the year | | (1,324) | (4,849) |

All figures relate to the continuing activities of the company.

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

On behalf of the board

Dr. J.J. Lynch, Chairman

Mr. R. Langford, Director

Balance Sheet

| As at 31st December | Notes | 2005 €000 | 2004 €000 |
|--|-------|--------------|--------------|
| Fixed assets | | | |
| Tangible assets | 4 | 79,873 | 81,059 |
| Current assets | | | |
| Stocks | 5 | 4,446 | 4,410 |
| Debtors | 6 | 52,608 | 43,780 |
| Cash at bank and in hand | | 1,180 | 159 |
| | | 58,234 | 48,349 |
| Creditors (amounts falling due within one year) | 7 | (38,568) | (37,330) |
| Net current assets | | 19,666 | 11,019 |
| Total assets less current liabilities | | 99,539 | 92,078 |
| Provision for liabilities and charges | 8 | (43,197) | (38,518) |
| Creditors (amounts falling due after one year) | 7(b) | (500) | (1,000) |
| Deferred Income | 9 | (21,010) | (21,253) |
| | | 34,832 | 31,307 |
| Financed by: | | | |
| Capital and reserves | | | |
| Called up share capital | 10 | 29,204 | 29,204 |
| Asset replacement reserve | 11 | 6,952 | 6,952 |
| Profit and loss account | | (1,324) | (4,849) |
| Shareholders' funds | 12 | 34,832 | 31,307 |

On behalf of the board

Dr. J.J. Lynch, Chairman

Mr. R. Langford, Director

Cash Flow Statement

| Year ended 31st December | Notes | 2005 €000 | 2004 €000 |
|--|-------|-----------------|--------------|
| Net cash inflow from operating activities | 13(a) | 21,286 | 21,941 |
| Returns on investment and servicing of finance | | | |
| Interest receivable | | 691 | 693 |
| | | 21,977 | 22,634 |
| Capital expenditure | | | |
| Additions to tangible assets | 4 | (14,569) | (21,257) |
| Proceeds from disposal of tangible assets | | 28 | 17 |
| Capital grants received | | 3,824 | 2,984 |
| | | (10,717) | (18,256) |
| Inflow before use of liquid resources and financing | | 11,260 | 4,378 |
| Management of liquid resources | | | |
| Movement in amounts owed by holding company | 13(b) | (9,224) | (5,815) |
| Increase/(Decrease) in cash | 13(b) | 2,036 | (1,437) |
| Liquid resources comprise amounts owed by the holding company, which represent cash generated not immediately required for operations, and made available to the holding company, repayable on demand. | | | |
| Reconciliation of net cash flow to movement in net funds | | | |
| Increase/(decrease) in cash in the year | | 2,036 | (1,437) |
| Cash from change in liquid resources | | 9,224 | 5,815 |
| Movement in net funds | | 11,260 | 4,378 |
| Net funds at 1st January | | 29,122 | 24,744 |
| Net funds at 31st December | | 40,382 | 29,122 |

Notes to the Financial Statements

| | 2005 | 2004 |
|---|----------------|----------------|
| | €000 | €000 |
| 1 PAYROLL AND RELATED COSTS | | |
| Staff Costs | | |
| Wages and salaries | 99,817 | 96,113 |
| Social welfare costs | 8,159 | 7,725 |
| Other pension costs | 5,732 | 5,013 |
| | 113,708 | 108,851 |
| Engineering work for group companies | (184) | (174) |
| Net staff costs | 113,524 | 108,677 |
| Directors' remuneration | | |
| Emoluments | | |
| - for services as directors | 49 | 45 |
| - for other services | 69 | 175 |
| Total directors' remuneration and emoluments | 118 | 220 |
| Payroll and related costs | 113,642 | 108,897 |

The average numbers of employees during the year were as follows:

| | Staff Numbers | |
|------------------------------|----------------------|--------------|
| | 2005 | 2004 |
| Full-time | 2,211 | 2,189 |
| Part-time school bus drivers | 547 | 547 |
| Total | 2,758 | 2,736 |

| | 2005 | 2004 |
|---|----------------|----------------|
| | €000 | €000 |
| 2 MATERIALS AND SERVICES | | |
| Fuels and lubricants | 12,381 | 8,075 |
| Other contractors | 80,096 | 71,115 |
| Road tax and licences | 330 | 299 |
| Operating lease rental of vehicles | 838 | 2,128 |
| Third party and employer's liability claims | 11,071 | 12,500 |
| Rates | 759 | 713 |
| Auditors' remuneration | 50 | 37 |
| Other materials and services | 32,716 | 31,846 |
| | 138,241 | 126,713 |

Notes to the Financial Statements *continued*

| | 2005 | 2004 |
|---|---------------|--------------|
| | €000 | €000 |
| 3 DEPRECIATION AND LOSS ON DISPOSAL OF TANGIBLE ASSETS | | |
| Depreciation of tangible fixed assets (<i>note 4</i>) | 15,384 | 13,780 |
| Loss on disposal of tangible fixed assets | 344 | 212 |
| Grant amortisation (<i>note 9</i>) | (3,955) | (4,149) |
| | <u>11,773</u> | <u>9,843</u> |

4 TANGIBLE FIXED ASSETS

| | Road Passenger Vehicles | Plant and Machinery | Total |
|-------------------------------|-------------------------------|------------------------|----------------|
| | €000 | €000 | €000 |
| Cost | | | |
| At 1st January, 2005 | 187,642 | 8,998 | 196,640 |
| Additions | 12,466 | 2,103 | 14,569 |
| Disposals | (10,076) | (370) | (10,446) |
| At 31st December, 2005 | <u>190,032</u> | <u>10,731</u> | <u>200,763</u> |
| Depreciation | | | |
| At 1st January, 2005 | 111,416 | 4,165 | 115,581 |
| Charge for the year | 14,130 | 1,254 | 15,384 |
| Disposals | (9,753) | (322) | (10,075) |
| At 31st December 2005 | <u>115,793</u> | <u>5,097</u> | <u>120,890</u> |
| Net book amounts | | | |
| At 31st December, 2005 | <u>74,239</u> | <u>5,634</u> | <u>79,873</u> |
| At 31st December, 2004 | <u>76,226</u> | <u>4,833</u> | <u>81,059</u> |

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

| | Lives (Years) |
|-------------------------|---------------|
| Road passenger vehicles | 8 - 14 |
| Plant and machinery | 5 - 10 |

(b) Road passenger vehicles at a cost of €21,967,146 (2004 - €900,411) were fully depreciated but still in use at the balance sheet date.

(c) Tangible fixed assets at 31st December, 2005 include €5,166,059 (2004 - €nil) in respect of tangible fixed assets not yet in service.

Notes to the Financial Statements *continued*

| | 2005 | 2004 |
|---------------------------------------|--------------|--------------|
| | €000 | €000 |
| 5 STOCKS | | |
| Maintenance materials and spare parts | 3,376 | 3,225 |
| Fuels, lubricants and sundry stocks | 1,070 | 1,185 |
| | 4,446 | 4,410 |

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

The replacement value of stocks is not materially different from their book value.

6 DEBTORS

| | | |
|---|---------------|---------------|
| Trade debtors | 2,572 | 2,319 |
| Department of Education and Science | 6,329 | 5,200 |
| Amounts owed by holding company (<i>note 13(b)</i>) | 40,202 | 30,978 |
| Other debtors and accrued income | 3,505 | 5,283 |
| | 52,608 | 43,780 |

7 CREDITORS

(A) Amounts falling due within one year

| | | |
|---|---------------|---------------|
| Bank overdraft | - | 515 |
| Trade creditors | 12,216 | 11,000 |
| Income tax deducted under PAYE | 1,256 | 1,253 |
| Pay-related social insurance | 1,173 | 1,112 |
| Value added tax and other taxes | 724 | 43 |
| Other creditors | 1,595 | 1,740 |
| Accruals | 7,642 | 8,317 |
| Third party and employer's liability claims (<i>note 8</i>) | 8,500 | 8,000 |
| Deferred Income (<i>note 9</i>) | 4,962 | 4,850 |
| Loan from holding company | 500 | 500 |
| | 38,568 | 37,330 |

Creditors for taxation and social welfare included above

(B) Amounts falling due after one year

| | | |
|---------------------------|-----|-------|
| Loan from holding company | 500 | 1,000 |
|---------------------------|-----|-------|

Notes to the Financial Statements *continued*

| | 2005 | 2004 |
|---|---------------|---------------|
| | €000 | €000 |
| 8 PROVISIONS FOR LIABILITIES AND CHARGES | | |
| Third party & Employers Liability Claims | | |
| Balance at 1st January | 46,518 | 39,423 |
| Utilised during the year | (5,892) | (5,405) |
| Transfer from profit and loss account | 11,071 | 12,500 |
| Balance carried forward at 31st December, 2005 | 51,697 | 46,518 |
| Apportioned: | | |
| Current liabilities (<i>note 7</i>) | 8,500 | 8,000 |
| Amounts falling due after one year | 43,197 | 38,518 |
| | 51,697 | 46,518 |

Third party and employer's liability claims

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.

(A) External Insurance Cover

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

- (i) Third party liability in excess of €1,680,000 for school buses and €2,000,000 for other road transport on any one occurrence or series of occurrences arising out of any one road transport event, except in the case of claims subject to United States jurisdiction where the excess is US\$3,300,000.
- (ii) Tour Operators liability for the group with an indemnity of €2,000,000 on any one incident and in the aggregate, subject to an excess of €250,000.
- (iii) Third party liability for the Group in excess of €150,000 on any one occurrence or series of occurrences arising out of Other Risk events, except;
 - (a) at Ossory Road, Dublin, in the case of flood damage, where the excess is a non-ranking €1,000,000, and
 - (b) any other flood damage where the excess is €250,000.
- (iv) Road transport liabilities in excess of a self-insured retention of €11,000,000 in aggregate in the twelve month period, April 2005 to March 2006, subject to an overall Group self insured retention of €27,000,000.
- (v) Terrorism Public Liability cover for the group of €10,000,000 subject to excesses appropriate to the incident category.
- (vi) Group Combined Liability Insurance overall indemnity is €200,000,000 for the twelve month period, April 2005 to March 2006, for rail and road transport Third Party and Other Risks Liabilities.
- (vii) Fire and Special Perils, including storm damage, with an indemnity of €200,000,000 in respect of Group's property in excess of €1,000,000 on any one loss or series of losses, with the annual excess capped at €5,000,000 in aggregate.
- (viii) Terrorism indemnity cover for the Group is €200,000,000 with an excess of €500,000 in respect of railway and road rolling stock and €150,000 in respect of other property damage, for each and every loss.

8 PROVISIONS FOR LIABILITIES AND CHARGES *(continued)*

(B) Third Party and Employer Liability Claims Provision and Related Recoveries

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, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may 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 business and the impact of large losses.

In estimating the cost of claims notified but unpaid, the company has regard to the claim circumstance as reported, any information available from legal or other experts and information on the cost of settling claims with similar characteristics in previous periods.

The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, because of the lack of any information about the claim event. Claim types which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

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

Notes to the Financial Statements *continued*

2005
€000

2004
€000

9 DEFERRED INCOME

This account comprises of non-repayable EU and Exchequer grants which will be credited to the profit and loss account on the same basis as the related fixed assets are depreciated (accounting policy E).

Capital Grants

| | | |
|--|---------------|---------------|
| Balance at 1st January | 26,103 | 27,268 |
| Received and receivable | 3,824 | 2,984 |
| Transfer to profit and loss account | (3,955) | (4,149) |
| Balance carried forward | 25,972 | 26,103 |
| Less transfer to current liabilities (<i>note 7</i>) | (4,962) | (4,850) |
| Balance at 31st December | 21,010 | 21,253 |

10 SHARE CAPITAL

Authorised

| | | |
|---|--------|--------|
| Ordinary shares of €1.27 each | 40,632 | 40,632 |
| Allotted, called up and fully paid | | |
| Ordinary shares of €1.27 each | 29,204 | 29,204 |

11 ASSET REPLACEMENT RESERVE

| | | |
|---------------------------------|--------------|--------------|
| Balance at 31st December | 6,952 | 6,952 |
|---------------------------------|--------------|--------------|

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | | |
|---|---------------|---------------|
| Surplus for the year | 3,525 | 5,776 |
| Opening equity shareholders' funds | 31,307 | 25,531 |
| Closing equity shareholders' funds | 34,832 | 31,307 |

Notes to the Financial Statements continued

2005
€000

2004
€000

13 CASH FLOW STATEMENT

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

| | | |
|--|---------------|---------------|
| Operating deficit before Public Service Obligation Payment | (22,366) | (18,916) |
| Public Service Obligation Payment | 25,200 | 23,999 |
| | <u>2,834</u> | <u>5,083</u> |
| Depreciation and loss on disposal of tangible fixed assets | 15,728 | 13,992 |
| Capital grants amortised | (3,955) | (4,149) |
| Increase in stocks | (36) | (300) |
| Decrease/(increase) in debtors | 395 | (543) |
| Increase in creditors | 1,140 | 324 |
| Increase in provisions for liabilities and charges | 5,180 | 7,534 |
| Net cash inflow from operating activities | <u>21,286</u> | <u>21,941</u> |

(B) Analysis of change in net funds

| | At 1st Jan. 2005 €000 | Flows €000 | At 31 Dec. 2005 €000 |
|---------------------------------|-----------------------------|---------------|----------------------------|
| Bank overdraft | (515) | 515 | 0 |
| Cash at bank and in hand | 159 | 1,021 | 1,180 |
| Loan from holding company | (1,500) | 500 | (1,000) |
| Amounts owed by holding company | 30,978 | 9,224 | 40,202 |
| | <u>29,122</u> | <u>11,260</u> | <u>40,382</u> |

2005
€000

2004
€000

14 OPERATING LEASE OBLIGATIONS

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

| | | |
|----------------------------|------------|------------|
| Within one year | 11 | - |
| Between one and five years | 148 | 212 |
| | <u>159</u> | <u>212</u> |

Notes to the Financial Statements *continued*

15 PENSIONS

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

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

Whilst the schemes are defined benefit schemes the company is unable to identify its share of the underlying assets and liabilities of the schemes. The actuarial position of the schemes at 31st December, 2005 using the bases required by FRS 17 showed a deficit of €284.4 million. Details required by Financial Reporting Standard 17 (Retirement Benefits) in relation to the schemes are contained in the accounts of Córas Iompair Éireann.

| | 2005 | 2004 |
|---|---------------|---------------|
| | €000 | €000 |
| Contracted for | 23,553 | 12,198 |
| Authorised by the directors, but not contracted for | 3,762 | 1,430 |
| | <u>27,315</u> | <u>13,628</u> |

16 CAPITAL COMMITMENTS

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

17 CONTINGENT LIABILITIES

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

Notes to the Financial Statements continued

18 NET SURPLUS/DEFICIT BY ACTIVITY

| | PUBLIC SERVICES | | | | Total |
|---|--------------------------------------|-------------------|----------|----------------|--------------|
| | Commercial & Schools Transport | Stage Carriage | City | Sub Total | |
| | €000 | €000 | €000 | €000 | €000 |
| 2005 | | | | | |
| Revenue | 176,566 | 41,351 | 23,373 | 64,724 | 241,290 |
| Costs | 168,910 | 60,664 | 33,391 | 94,055 | 262,965 |
| Surplus/(deficit) before Public Service Obligation payment | 7,656 | (19,313) | (10,018) | (29,331) | (21,675) |
| Public Service Obligation payment | | | | 25,200 | 25,200 |
| Surplus/(deficit) for Year | 7,656 | | | (4,131) | 3,525 |
| 2004 | | | | | |
| Surplus/(deficit) | 8,795 | | | (3,019) | 5,776 |

The company operates commercial, schools transport and public service activities. The principal activity operated on a commercial basis is Expressway. The School Transport scheme is operated under contract with the Department of Education and Science on a cost recovery basis. The remaining principal activities are Stage Carriage and City Services for which the company receives Public Service Obligation payments in respect of these public service activities. Costs for Expressway, Stage Carriage and City Services are allocated on the basis of metrics derived from prior period actual costs, independent studies of Bus Éireann operations, numbers of buses and mileage.

19 RELATED PARTIES

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

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

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

Notes to the Financial Statements *continued*

20 PUBLIC SERVICE OBLIGATION PAYMENT

The Public Service Obligation payable to the company through the holding company, Córas Iompair Éireann, amounted to €25,200,000 for the year ended 31st December, 2005 (2004 – €23,999,000).

21 MEMBERSHIP OF CÓRAS IOMPAIR ÉIREANN GROUP

Bus Éireann-Irish Bus is a wholly owned subsidiary of Córas Iompair Éireann (the Group) and the financial statements reflect the effects of group membership.

22 APPROVAL OF FINANCIAL STATEMENTS

The directors approved the financial statements on 27th March, 2006.