Report of the

Review Group on State Assets and Liabilities

April 2011

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Section 1: Introduction and Summary

It is not sustainable for the state to continue to borrow at current levels and all avenues for reducing expenditure and raising additional revenues must be explored. Opportunities to de-leverage the state balance sheet through asset realisations must also be examined.

It is in this context that the Minister for Finance established the Review Group on State Assets and Liabilities in July 2010 to advise on how commercial state assets can be better deployed or disposed of to support economic recovery.

1.1. Membership and Terms of Reference of the Review Group

The Minister appointed Mr. Colm McCarthy, School of Economics, University College Dublin as member and chair of the Review Group; the other members were Mr. Donal McNally, Second Secretary, Department of Finance, and Prof. Alan Matthews, Department of Economics, Trinity College, Dublin. The Group was supported by a Secretariat provided by the Department of Finance.

The Review Group was given the following terms of reference:

1. To consider the potential for asset disposals in the public sector, including commercial state bodies, in view of the indebtedness of the state;
2. To draw up a list of possible asset disposals;
3. To assess how the use and disposition of such assets can best help restore growth and contribute to national investment priorities; and
4. To review where appropriate, relevant investment and financing plans, commercial practices and regulatory requirements affecting the use of such assets in the national interest.

The Group began its work at end July, 2010.

The Group invited all Government Departments and commercial state bodies to make formal submissions and it also advertised generally for submissions from interested parties. Over 45 submissions were received. Between September 2010 and February 2011, the Group met delegations from all of the main commercial state bodies, the appropriate regulatory authorities and individual economic and regulatory experts in the various sectors of the economy. The Group wishes to acknowledge the considerable co-operation it has received.[1] The Group engaged Mr. Joe Burnell to assist with financial analysis and wishes to record its appreciation of his contribution and those of Mr. Michael Perkins and Mr. Ronan Gallagher, who acted as the secretariat to the Group.

The Review Group's deliberations were focused primarily on commercial state bodies, but it also examined certain of the state's intangible assets to determine whether they are efficiently allocated and priced. In framing its recommendations, the Group paid particular attention to questions of market design and the regulatory reforms necessary to underpin competition and appropriate levels of investment, especially in those sectors where there

[1] A list of the organisations and individuals who made submissions to the Group and/or who met with the Group is provided at Appendix 14.

are natural monopolies subject to statutory regulation. The recommendations are intended to enhance the competitiveness of the sectors of the economy where state bodies are active, even in cases where the Group has not recommended that the state divest its interest at this time.

1.2. Assets Reviewed

A list of the assets to be reviewed was attached to the terms of reference, as follows:

(i) Commercial State Bodies

Dublin Airport Authority	Dublin, Cork and other port companies	An Post
Irish Aviation Authority	Bord Na gCon	RTÉ
CIE (including Dublin Bus, Irish Rail, Bus Eireann)	Horse Racing Ireland	TG4
	Irish National Stud Company	National Oil Reserves Agency
ESB	Bord Na Móna	Bord Gáis Éireann
EirGrid	Coillte	

(ii) Intangible Assets

These include, *inter alia*, radio spectrum allocated for broadcasting and telecommunications; carbon emissions permits; and mineral, hydrocarbon and other licences issued by the state.

1.3. Exclusions from consideration by the Group

VHI: The VHI was excluded from the Review Group's terms of reference because the Government had already initiated a separate process that addresses both the sale of the VHI and the wider complexities involved in the private health insurance market.

The National Oil Reserves Agency (NORA): NORA featured in the list of commercial state bodies attached to the Review Group's terms of reference, agreed by Government in June 2010. As per the provisions of the National Oil Reserves Agency Act, 2007, NORA is a non-commercial state agency whose function is to manage the state's strategic stocks of oil. Although substantial, the strategic stock cannot realistically be run down because Ireland is obliged, as a member of the EU and the International Energy Agency (IEA), to hold stocks of at least 90 days of oil for use in the event of major oil shortages nationally or internationally. On this basis the Review Group does not propose to make any recommendations in regard to NORA.

NAMA: The assets held on behalf of the state by the National Asset Management Agency as part of the Government's programme of remediation for the banking sector are outside the terms of reference of the Review Group.

Banks: The government has acquired substantial ownership stakes in certain banks as a result of the rescue and re-capitalisation process. These stakes may be disposed of in due course but the Group feels that it is too early to consider concrete disposal options.

1.4. Summary of the Group's Recommendations

The recommendations are presented throughout the text and gathered for ease of reference in Chapter 20. They can be summarised as follows:

We are recommending that there should be a planned programme of asset sales to reduce the state's very high level of indebtedness.

We are not recommending an accelerated sale process. This would inhibit attainment of value and in many cases would not be prudent or even possible given the requirement for revised regulatory procedures and complex legislation.

We are not putting valuations on individual state assets in this report. These depend on many factors and ultimately on what a buyer will pay. The net asset value of commercial company assets whose disposal is recommended is about €5 billion, but net asset value is no more than a rough guide to what might be realisable.

We are recommending restructuring of state companies and strengthened regulatory arrangements as preludes to possible sale, but also to enhance the competitiveness of the economy even if assets are not sold.

We are not recommending that core transmission assets in gas and electricity be sold to private interests in the immediate future. Such assets have been successfully privatised in some countries but we believe that disposal in current Irish circumstances involves risks and that consideration of this option should be deferred.

We are recommending changes in the governance of state bodies while they remain in public ownership to enhance efficiency and performance. We also propose a review of regulatory arrangements and a new structure for the oversight of regulatory agencies.

We are not proposing that all assets be disposed of. In the case of land-based assets in particular, we propose that the state sell the rights to reap the produce of the land but not the land itself.

We are proposing that intangible assets (rights, licences, options, leases etc.) be treated in exactly the same way as tangible assets. They should invariably be sold to the highest bidder.

The Group's appointment pre-dates the resort, in November 2010, to official financing from the International Monetary Fund and the EU institutions. The Memorandum of Understanding dated 28 November 2010 mentions the Group's consideration of these issues and enjoins the Irish authorities to consult with the IMF/EU later this year. It does not specify any target for an asset disposal programme.

We are proposing a planned, prudent approach designed to secure maximum value to reduce the debt burden and to meet and protect the public interest, decisions on which are a matter for the Government and the Oireachtas.

Section 2: Asset Sales and the Policy Context

Economic recovery, including in particular the generation of sufficient economic growth to expand employment and to generate government revenue to ease debt service burdens, must be the central concern of economic policy. The realisation of proceeds from state asset disposals can assist the adjustment process - through reducing the debt burden - but such assets can also be used to support economic recovery through enhancing productive efficiency and competitiveness. The Group believes that it is inadvisable to focus solely on short-term revenue maximisation through, for example, conferring excessive market power on entities to be disposed of, and that conflict between revenue realisation and the promotion of longer-tern economic growth should be clearly resolved in favour of the latter.

2.1 Economic and Fiscal Outlook

This policy analysis of state asset utilisation is taking place in the context of a deep economic and fiscal crisis. GDP in 2010 was 11.8% below its 2007 level in real terms and GNP 15.6% below that benchmark. Employment has fallen by about 15% from its peak in Quarter 3 of 2007 and the seasonally adjusted unemployment rate has risen from 4.5% to 14.7% over the period.

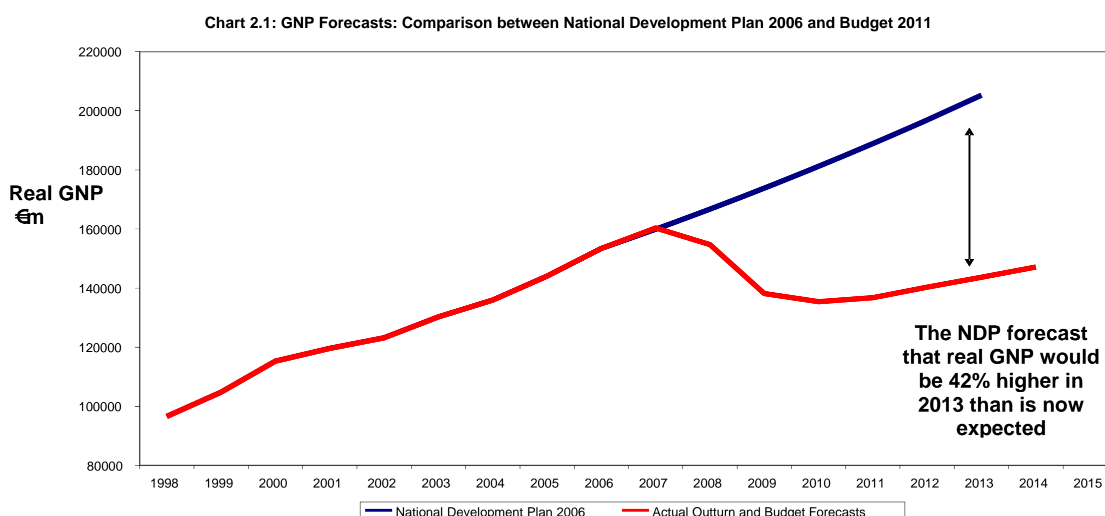

Chart 2.1 shows the trend in real GNP expected when the National Development Plan 2006-2013 was prepared versus what has actually occurred and what is now projected. Real economic activity in the middle of the current decade could be 40% below the projections made in the NDP, launched in January 2007. Investment plans made at that time need to be re-considered, where this has not already been done, in the light of the substantial reduction in pressure on infrastructure capacity which has resulted.

A downturn of this magnitude is without precedent here and has few parallels at an international level. This is after average annual growth rates of 7.3% and 6.6% in real GDP and GNP respectively between 1994 and 2007 and an increase of over 900,000 in the

numbers at work. The crisis has had a severe impact on the public finances. Tax receipts in 2010 were around 33% lower than in 2007 despite increases in rates of taxation. At the same time, net current spending has continued to rise because of the sharp rise in unemployment and a mounting debt interest burden. The public finances have deteriorated rapidly and a structural gap has opened up between spending and revenue which will not readily be closed.

2.2 Budgetary Adjustment

The gap between budgetary receipts and spending came to almost €19 billion in 2010. The Government has already taken significant actions to prevent the gap from widening further. Table 2.1 shows adjustments to expenditure and revenue amounting to a cumulative €20.8 billion already implemented between July 2008 and Budget 2011 in pursuit of this objective. Despite the scale of the adjustment, a very large and unsustainable gap remains between spending and revenue which is filled by borrowing.

Table 2.1: Budgetary Adjustments since mid-2008 – Planned Budgetary Impact

July 2008 Expenditure adjustments	1.0
Budget 2009 (October 2008) Revenue raising measures	2.0
February 2009 Expenditure adjustments	2.1
Supplementary Budget (April 2009) Revenue-raising & expenditure-reducing measures	5.4
Budget 2010 (December 2009) Expenditure-reducing & minor revenue-raising measures	4.3
Budget 2011 (December 2010) Expenditure-reducing & revenue-raising measures	6.0
Total	**€20.8bn**

Source: National Recovery Plan 2011-2014 and Budget 2011, Department of Finance (2010).

The burden of debt service is absorbing a rapidly increasing proportion of tax revenue, even assuming no upward pressure on interest rates. Moving towards a balanced budget is therefore a prerequisite for re-entry to the bond market. A strategy to address this was set out in the National Recovery Plan (published on 24th November 2010) and implemented for 2011 in the Budget published on 7 December 2010.

2.3 Budget Outlook

Achievement of the budget targets set in the National Recovery Plan 2011-2014 is predicated on implementing the expenditure and taxation adjustments set out in the Plan. To the extent that asset sales can provide revenue and reduce the level of debt and debt interest payments, they can contribute to reducing the burden of spending cuts and tax increases otherwise necessary and the pain to be suffered by all sections of the community. Asset sales must be viewed in this light and in the light of very limited policy alternatives.

2.4 De-Leveraging, Balance-sheet Management and the EU/IMF Programme

The public finance and banking crises culminated, during November 2010, in an inability on the part of both government and the guaranteed banks to access international credit markets on normal terms. The state had chosen to withdraw from the bond market in October in the face of deteriorating interest rate spreads and the banks were experiencing resource outflows and continuing heavy reliance on liquidity provision from the European Central Bank and the Irish Central Bank. The outcome was the programme of financial support from the European institutions and the International Monetary Fund announced in the Memorandum of Understanding released on December 1st, 2010 (Department of Finance, 2010). The projected financing needs of the state have thus been assured for the short term, but re-entry to the markets for both banks and government is the ultimate objective. This will require deficit reduction by the state and balance sheet management measures designed to ensure that the state's debt level is contained. The deficit adds to debt, and a sustainable exit debt position requires that the deficit be reduced from current unsustainable levels. But the debt can also be contained to the degree that state assets can be realised and the proceeds deployed in debt reduction.

The state's balance sheet includes financial and non-financial assets. The realisation of value from non-financial assets belonging to the state would also help to de-leverage, shrinking the balance sheet and reducing the requirement for additional borrowing. De-leveraging of this type is a rational component in a strategy designed to address a situation of balance sheet stress. If assets can be realised at acceptable valuations, the proceeds reduce the gross debt (but not the ongoing deficit). In this context, the Memorandum of Economic and Financial Policies, agreed as part of the EU/IMF programme, states (pg. 31):

> *'Building on the forthcoming report of the Review Group on State Assets and Liabilities the Government will undertake an independent assessment of the electricity and gas sectors with a view to enhancing their efficiency. State authorities will consult with the Commission Services on the results of this assessment with a view to setting appropriate targets for the possible privatisation of state-owned assets.'*

The Review Group's consideration of the structure and regulation of the electricity and gas industries, as well as the Group's recommendations on asset disposal in these sectors, will be found in Sections 6, 7 and 8 below.

2.5 Valuations and the Timing of Disposals

Notwithstanding the stressed condition of the state's balance sheet, the state's withdrawal for the time being from international credit markets and the potential reliance, over the next several years, on official external financial support, the Group does not favour a front-loaded programme of state asset disposal for a number of reasons. The availability of this external support from the EU institutions and the IMF means that 'fire sales' need not be contemplated in the period immediately ahead. Moreover, there are complex issues of market design and of regulatory reform in several of the sectors in which the state-owned companies operate, which we consider below. Finally, asset markets, including in particular markets for infrastructure-type assets, have experienced weakness due to the more limited availability of acquisition finance since the onset of the international credit crisis in the

second half of 2008. Accordingly, there is a risk of depressed valuations being achieved should disposals be undertaken in a rush in the very short term. It is realistic, however, to note that transactions have been taking place, and at what appear to be reasonable valuations, in several markets and that acquisition finance continues to be available, if more selectively than was the case during the worldwide credit bubble.

In assessing asset valuations likely to be achievable over the next few years, it is desirable to make allowance for the extent of the asset price bubble which manifested itself internationally during the easy credit period which ended in 2008. Those who bought assets during the peak years of the bubble have in most cases lived to regret it, and the prices achieved by sellers during those years should be envied. Whenever a price becomes available for a particular asset which is well below what might have been available in 2006 or 2007, it does not follow that the price is unreasonable or bad value. A more plausible conclusion is that the prices of 2006 and 2007 were bubble prices and unlikely to be realistically available in future years. This point needs to be borne in mind when assessing prospective valuations for assets which might be included in any disposal programme.

2.6 Microeconomic Policy and Asset Disposals

Where the state owns financial assets or small stakes in competitive businesses, the decision to dispose and de-leverage the national balance sheet is straightforward to the degree that the decision does not have implications for other aspects of economic policy. A decision to realise some or all of the value of a portfolio of shares held in the National Pension Reserve Fund, or of non-controlling stakes in other businesses, or of surplus real estate, would all fall into this category. Disposal is essentially a financial decision and leverage reduction is attractive if reasonable prices can be achieved, particularly given the considerable increase in state funding costs.

The situation is more complex in the case of many of the state-owned companies. These companies control and operate important infrastructure networks that are monopolies or are otherwise engaged in activities where the relinquishment of state ownership raises issues of microeconomic policy. Those companies deemed to be natural monopolies or to possess substantial market power are subject to economic regulation and there are EU directives to be complied with concerning state policy towards the sectors of the economy in which they operate. Some of the companies, for example in public transport, are explicit instruments of public policy as well as seeking to be commercial organisations. Some assets may be seen as intrinsically strategic and retention in public ownership may be viewed as vital for economic development. But other public policy instruments are available to government to achieve public interest objectives that do not require continued state ownership in all cases.

Disposal of these companies or of portions of their activities to private sector purchasers requires consideration of microeconomic policy issues in addition to financial questions about disposal proceeds or timing. These include the structure of the market that is desired, the impact that a change of ownership might have on conditions of competition, the adequacy of existing regulatory arrangements for the changed environment and the implications of the loss by the state of direct control through ownership. There may be a cost to the state in correctly addressing these issues – a monopoly inadequately regulated, for example, could realise a superior price to one privatised under stronger regulatory arrangements. But such a revenue-maximisation strategy could be seen as capitalising in

the disposal price the buyer's expectation of subsequent higher prices, and it would amount to the realisation by the state of the proceeds of a future unlegislated indirect tax. This would of course impose costs on the traded sector of the economy, both directly through higher charges to business and indirectly through adding to the price level and hence to nominal wage expectations. It is in the long-run interest of restoring Exchequer balance to ensure that costs to the traded sector are contained, since this will encourage recovery in economic activity, in employment and, ultimately, in government revenue.

Recommendation 1: The Review Group recommends that any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value-enhancement of privatised entities through weak regulatory arrangements.

2.7 Recent History of Disposals of Semi-State Companies

Since 1991, 10 Irish state companies have been sold, starting with the Irish Sugar Company (Greencore) and Irish Life Assurance in 1991 and ending with Aer Lingus in 2006. In between, the Government sold off three state banks (ICC, TSB and ACC); Irish Steel; the ferry company B&I Line; the Irish National Petroleum Company (the assets of the company); and Telecom Éireann (eircom). The sales occurred as opportunities arose and were sporadic rather than scheduled. Details of these disposals are contained in the table below:

Table 2.2: History of Privatisations of State Companies

Company	Year and Type of Disposal	Exchequer Proceeds €m
Greencore	1991 – IPO, final placements in 1992/93	210
Irish Life	1991 – IPO, final placements in 1992, 1993 and 1995	600
B&I Ferries	1992 – Trade Sale	10
Irish Steel	1994 – Trade Sale	0
eircom	1996-9-Trade Sale and IPO	6,300
ICC Bank	2001 - Trade Sale	320
TSB Bank	2001 - Trade Sale	410
INPC	2001 – Trade Sale	20
ACC Bank	2001 – Trade Sale	155
Aer Lingus	2006 - IPO	241
Total for 1991 -2010		**8,266**

These disposals were successful in raising cash for the Exchequer. In some cases, notably that of Aer Lingus, the sale enabled the companies to raise funds that the Exchequer was

precluded from, or not inclined to, provide. The sales were largely uncontroversial except in the case of the telecoms firm Telecom Éireann.

2.8 Sale of Telecom Éireann/eircom

The state's disposal of Telecom Éireann, which became eircom, remains the largest privatisation undertaken in Ireland to date. From a revenue-raising perspective it was very successful, raising approximately €6.3 billion of the approximately €8.3 billion raised in total for all privatisations. It also stands out as an example of the public policy challenges that arise when the state divests control of a utility with a significant role in a major sector of the economy.

It has been argued that in selling eircom the government ceded control of an important instrument by which it could have directly influenced investment in telecom infrastructure and broadband roll-out. Total capital investment in telecommunications technology fell from €500 million in 2002 to €209 million in 2005. The state had to invest substantial sums itself in telecoms infrastructure with mixed results.[2] Broadband roll-out was below par to the detriment of the economy, it is claimed. Recent research suggests, however, that this latter claim is overstated. In the United States, where internet coverage has varied geographically, there is no clear evidence that rural areas with high-quality provision do systematically better than areas which attracted lower levels of provision (Forman, Goldfarb and Greenstein (2011)).

The experience in other EU countries had shown a strong correlation between broadband take-up and adoption of Local Loop Unbundling (LLU) and/or cross-platform competition from cable operators. Much earlier LLU in Ireland would have enabled other operators to offer innovative new products and potentially make their products available in locations not served by eircom. This was an important factor distinct from the state/private ownership issue. EU regulation had mandated LLU be adopted by all member states by 2001. Eircom was, however, only nominally compliant – in practice LLU was too expensive and too administratively complex to interest other operators. Again, ComReg's ability to facilitate LLU was limited in part by legal and statutory deficiencies. In any case, the regulatory problems in respect of broadband appear to have now been overtaken in part by technological advances: eircom's network has been bypassed in many areas by cable and mobile operators.

Although it is generally accepted that there was a period in which infrastructure and availability of broadband was below what was desirable, the extent to which this resulted from control of eircom switching to the private sector is open to debate. The majority of those states that currently out-rank Ireland in international comparative exercises on broadband penetration and speed also privatised their incumbents in the telecoms market, in some cases earlier than Ireland did, and these private entities delivered the necessary infrastructure investment.

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[2] The State's interventions consisted of the Metropolitan Area Networks (MANs), State-owned, open access telecommunications networks installed in certain towns and cities on the assumption of market failure in these areas, and later the National Broadband Scheme (NBS), a Government subsidised initiative to provide a broadband service to people living and working in areas where private sector service providers have not deployed infrastructure on a commercial basis.

The issue of regulation must, nevertheless, be at the forefront of decision-making on the sale of key assets so as to ensure that, *inter alia*, any immediate financial gains to the Exchequer are not undone by medium to long-term underinvestment in important infrastructure. The regulator must have the competence and enforcement powers necessary to intervene effectively in the event of market failure, in particular to ensure it has the capacity to impose penalties for non-compliance and has strong competition powers.

2.9 Resolution or Step-in Rights

Companies which are natural or *de facto* monopolies operating critical infrastructures cannot be allowed to fail and, as the example of Railtrack in the United Kingdom demonstrates, this problem can be troublesome when the company in question is in private ownership. Statutory regulation may need to be reinforced with powers for the state to intervene and replace private sector management. In their submission the Economic and Social Research Institute put the issue in the following fashion:

> ‘*One difficulty is that the regulated firm may take on excessive leverage and use its inability to raise additional funds for vital infrastructure investment to argue that it should receive lenient regulatory treatment. Similarly, the firm might undertake risky diversification, end up in financial or other difficulties and request a price increase to fund such errors. Since many regulated firms with market power provide important services essential to the everyday functioning of the economy, if these firms were to be become bankrupt or unexpectedly stop supplying services – even for a short time - then this could have substantial adverse effects on the economy. Thus the regulated firm is in a strong bargaining position when it asks the regulator for a price increase, implicitly threatening bankruptcy and discontinuity of service if it is not granted*.’ (Gorecki et al, 2010)

In order to level the regulatory playing field when the state-owned firm is privatised, one option would be to allow the regulator to step in, run the firm and dispose of the assets as the regulator saw fit if the regulated entity failed to meet the conditions set out in its license. The license might, for example, set out a programme of investment that is expected as well as the regulatory regime that will be imposed on the regulated entity. If the regulated entity is unable to meet the investment programme because it has incurred too much debt then step-in rights might be invoked.

Resolution powers are familiar in the banking industry. The motivation is different – depositors need to be protected and bank runs avoided. In the United States, the federal authorities can remove board and management in a failing commercial bank and keep it functioning while arriving at arrangements with creditors. The absence of such powers in the case of the Wall Street investment banks (since rectified) has been identified by some commentators as a complicating factor in dealing with the financial crisis in 2008. Some European countries, including the United Kingdom, have introduced new bank resolution powers and in Ireland resolution powers are available in the Insurance Acts and were used by the Financial Regulator in the case of the Quinn Insurance group. Resolution powers for banks are also being introduced in Ireland and elsewhere in Europe.

The United Kingdom government's provisions for a special administration process which permits the government to take charge of certain categories of failing privatised firms are described in Box 2.1.

Box 2.1
The Special Administration Process in the United Kingdom

An explicit special administration process relating to privatised, regulated industries is in place in the United Kingdom, where provisions are enshrined in statute to protect water, rail and energy network assets:

"Measures to protect continuity of service in the water, rail and energy sectors were taken in the Water Industry Act 1991, the Railways Act 1993 and the Energy Act 2004 respectively. These contain provisions that allow the Secretary of State (or the regulator with the permission of the Secretary of State) to apply to the High Court to appoint a Special Administrator. The High Court will only make such an order if certain conditions are satisfied, including that the company is (or is likely to be) unable to pay its debts. Other circumstances that might lead to the appointment of a Special Administrator in the water sector include breach or potential breach by a company of its duties. The objectives of Special Administrators include securing that the licence holder continues to develop an efficient and economical network (or in the case of the water industry to maintain supplies) and that the company is either rescued as a going concern or that its activities are transferred to another company as a going concern."

The water industry rules have been updated recently:

"The new Water Industry (Special Administration) Rules 2009 will come into force on 1st November 2009. The purpose of the Rules is to provide the detail of the court procedure which should apply in relation to the special insolvency regime applicable to "water companies" subject to a special administration order under the Water Industry Act 1991. Special administration exists to help ensure that water and sewerage services continue to be provided to customers should a water company become insolvent or otherwise be in breach of its statutory obligations, pending the transfer of the water company's business to another company (or more than one company).

Therefore, the Rules will be applicable to water undertakers; sewage undertakers and licensed water suppliers that hold a combined licence and own a strategic water supply (i.e. a supply provided by a licensee that would impact on an undertaker's ability to supply its customers if it was withdrawn).

The special administration regime is there to serve the customer's interests first, in the event that any of the companies within the water industry experience financial difficulties. Customers are protected from the otherwise inconvenient outcome of normal insolvency proceedings for water companies, where the assets and infrastructure of the company could simply be closed down or sold off to save costs or pay off debts, meaning that water and sewerage customers would be cut-off from services. However the new insolvency regime ensures the enforcement of water and sewerage services even whilst the company is being transferred to a new owner (or owners).

Recommendation 2: The Review Group recommends that any privatisation legislation involving companies operating critical infrastructures in Ireland should include explicit provision for resolution or step-in powers. The United Kingdom rules provide a possible template.

Section 3: Market Design and Regulatory Reform

3.1 Monopolies and Market Power

Companies can come to enjoy monopoly power in a variety of ways. Some companies which are the sole operator in a market are deemed to be *natural* monopolies because the nature of the industry (e.g. economies of scale) precludes the likelihood of other entrants. In these cases the emergence of competing companies is improbable in the absence of some major technological change and the companies, regardless of ownership, are felt to require economic regulation in order to protect consumers from exploitation through excess cost, excess profit or both.

These risks are also present where companies just happen to be the only operators in a market, even though they may not meet the technical definition of a natural monopoly. These companies are *de facto* monopolies, unlikely to face the threat of competitive entry and are commonly subjected to economic regulation also. Finally, there are statutory monopolies, that is, companies which have had the exclusive right to operate in a particular market conferred by political decision.

Yet other companies operate in markets which are oligopolistic and where there are only a few participants each of which enjoys some degree of market power. Aside from removing barriers to entry, there is a less clear-cut case for policy intervention in these markets although regulatory intervention is sometimes attempted. Competition authorities in some countries seek to prevent the emergence of market power through the policing of mergers and acquisitions and the removal, where possible, of entry barriers.

Economic regulation is complex and countries which have been operating economic regulation regimes over very long periods frequently engage in regulatory reform as circumstances change or as flaws in the system are uncovered. Some writers on the economics of regulation have characterised the policy choices in terms of 'imperfect regulation versus imperfect competition'. Thus Joskow (2006):

'Regulation is itself imperfect and can lead to costly and unanticipated firm responses to the incentives created by regulatory rules and procedures. The costs of regulation may exceed the costs of unregulated natural monopoly or significantly reduce the net social benefits of regulation. These considerations lead to a very important policy-relevant question. Are imperfect unregulated markets better or worse than imperfectly regulated markets in practice?'

The same writer considers the long history of economic regulation, including the imperative of constant attention to regulatory reform and revision, in a recent paper Joskow (2010).

3.2 Regulating Natural Monopolies

A natural monopoly arises where the nature of the cost curve facing the firm is such that, over the relevant range of output, one firm can always produce at lower cost than two or more firms.[3] An example would be the electricity transmission network: a second, competing network, or a third, would result in overall social costs higher than can be achieved with just one network. A corollary is that new entrants are more or less certain to lose money: no investor will volunteer to build a second network, so natural monopolies do not need statutory protection from entrants. Natural monopolies are not common: most business sectors are actually or potentially competitive but when they do arise it tends to be in large industries where poor performance by the monopoly would have significant adverse consequences. Poor performance can take two principal forms.

The first is excess profit through exploitation of the absence of competition to extract high prices from consumers. The second is through failure to attain the lowest available costs, again due to the absence of competitive pressure. This cost inefficiency can arise through managerial lethargy, absence of innovation or through the imposition of rent-extracting activities by upstream suppliers, including labour unions or monopoly suppliers of raw materials. Where the natural monopoly is owned by the state rather than by private capital there can be additional cost impositions. The monopoly may have non-commercial obligations imposed by political decision with the costs passed through to customers who cannot resort to an alternative supplier.

For all of these reasons, natural monopolies are often subjected to economic regulation by the state, and this includes monopolies owned by the state. Regulators face acute problems in attaining the dual objectives of ensuring that the regulated entity operates on the lowest available cost curve and also earns no more than the normal rate of profit, see Laffont and Tirole (1993). Independent statutory regulation of certain natural monopolies, for example in the energy networks businesses, is required of EU member states under a series of directives designed to liberalise energy markets and to ensure rights of access to new entrants.

The effective economic regulation of natural monopolies is a great challenge and regulatory regimes require constant updating, both to reflect practical experience and the inevitability of technological change in many of the industries concerned. A particular dilemma is the likelihood of information deficiencies available to the regulator. This can result in an inability to ensure minimum cost while also controlling rent-extraction. There is a further trade-off between providing as much certainty as possible to encourage longer-term commitment of capital by private investors while standing ready to modify regulatory regimes which exhibit weaknesses.

[3] Sometimes loosely described in terms of economies of scale, see Joskow (2006). Strictly, scale economies are sufficient but not necessary for natural monopoly to occur.

3.3 Economic Regulation in Ireland

There has been a pattern in Ireland of establishing sector regulators for the various industries as they were liberalised. Thus there are distinct economic regulators, established by statute, for energy (electricity and gas), telecommunications, broadcasting, aviation, public transport, taxis and health insurance.

The Department of the Taoiseach commissioned a review of agencies involved in economic regulation from the Economist Intelligence Unit whose remit included the Financial Regulator and the Health and Safety Authority in addition to the sector regulators considered here. The report (Economist Intelligence Unit, 2009) draws attention to weaknesses in current Irish arrangements and makes numerous suggestions for change which the Review Group has taken into account.

3.4 Discussion and Recommendations

Natural and other monopolies which are regulated have the potential to impose costs on the household and business sectors which add to competitiveness weaknesses in the rest of the economy.

> **Recommendation 3:** The Review Group recommends that the objectives of economic regulatory agencies need to incorporate, explicitly and on a common basis, the minimisation of cost to the rest of the economy.

More generally, the structure of economic regulation needs constant revision and the prospect of further disposal, in whole or in part, of the state's direct ownership in certain sectors requires that adequate regulatory arrangements be in place in advance of ownership changes.

> **Recommendation 4:** The Review Group recommends that a comprehensive review of the legislation governing economic regulatory agencies be undertaken and that necessary legislative amendments be enacted prior to any state disposals.

This review should take account of the specific changes recommended throughout this report. It should also consider the ring-fencing of regulated businesses within groups which also operate unregulated businesses in competition with other companies. This ring-fencing is necessary in order to avoid cross-subsidisation from the regulated business or the recovery of excess group-level costs, such as finance costs, from the captive customers of the regulated monopoly.

In order to underline the essential mission of economic regulators, which is the protection of consumers from monopolies public or private, and their independence from politics and policy execution, it is desirable that the reporting relationships of regulators be re-structured. The central government department responsible for the promotion of

competitiveness and for consumer protection is the Department of Enterprise, Trade and Innovation. This is the appropriate unit to which economic regulators should report.

Recommendation 5: The Review Group recommends that the Department of Enterprise, Trade and Innovation, which already has responsibility for competition policy, should become the parent department for all economic regulatory bodies, and should take responsibility for their supervision and performance measurement and for legislative updating.

The Irish regulatory bodies are financed in large part through fees charged to the sectors they regulate, and their staffing and costs are analysed at length, and at times critically, in the aforementioned Economist Intelligence Unit report. This model of regulator financing is weak, and indeed resembles the type of cost-plus pricing by monopolies which regulation is designed to inhibit. It may also be the case that direct reliance on the regulated entities for revenue increases the risks of regulatory capture, which is a material concern, given the information asymmetries that abound. An alternative mechanism that breaks this direct financial reliance is desirable.

Recommendation 6: The Review Group recommends that levies on regulated entities, including license fees and other miscellaneous charges, should accrue directly to the Exchequer, and that to strengthen their independent role the operating budgets of economic regulatory bodies should be a charge on the Central Fund.

The Group believes that the implementation of these two recommendations would clarify greatly the role and function of sector regulators; would provide the opportunity for a review of regulatory design; would permit centralisation of expertise in regulatory supervision, and would help to address the question *quis custodiet ipsos custodes?*

The Economist Intelligence Unit report draws attention to the reliance of parent departments on regulatory agencies in the process of policy formulation. While consultation with regulatory agencies and other players is unobjectionable, technical and policy-analytic capacity should be located principally in the central government departments, without excessive resort to inputs from agencies whose principal mission is economic regulation. Sporadic deployment of specialist consultants is also unobjectionable, but this should not substitute for permanent in-house capability.

Recommendation 7: The Review Group recommends that central government departments responsible for policy in areas such as energy and transport should ensure adequate internal resources for the task and should avoid excessive reliance on regulatory agencies and outside consultants.

Some of the Irish economic regulatory bodies have acquired, or have been delegated, functions which might better be accommodated in executive agencies or indeed in central government departments. An example would be the Commission for Aviation Regulation's role in licensing and supervising tour operators.

Recommendation 8: The Review Group recommends that economic regulators should be relieved of responsibility for extraneous administrative functions.

Economic regulation is costly and a wide range of technical skills is required. There have from time to time been suggestions that Ireland might be better off with a single super-regulator. The Group has concluded that this course does not recommend itself, but that a smaller number of regulators would be preferable to the existing arrangement. There are distinct regulators for the telecommunications industry (ComReg, also responsible for postal services) and for broadcasting (the Broadcasting Authority of Ireland). These technologies are merging and in some respects are already indistinguishable.

Recommendation 9: The Review Group recommends that there be a single regulator for the broadcasting and telecommunications (including postal) industries.

In its report of July 2009, the Review Group on Public Service Numbers and Expenditure Programmes recommended that the Health Insurance Authority be absorbed by the Financial Regulator, who deals with all other insurance regulatory matters. The VHI's two competitors in the health insurance business, Quinn and Aviva, are already subject to the Financial Regulator.

Recommendation 10: The Review Group recommends that the Health Insurance Authority should be absorbed by the Financial Regulator.

The recent establishment of a new regulatory body for public transport provides a further opportunity to rationalise. Taxis are a form of (privately operated) public transport and the Review Group notes that the Taxi Regulator's activities have now been absorbed into the regulatory structure of the National Transport Authority.

In 2009, the Special Group on Public Service Numbers and Expenditure recommended that the Irish water industry should be comprehensively restructured. The National Recovery Plan 2011-2014 provides for the introduction of a scheme for metering and charging for domestic water. A commercialised water industry that might eventually emerge from this reform would be a natural monopoly and would have to be subject to economic regulation. It has been suggested that the Environmental Protection Agency (EPA), which currently has responsibility for water quality and compliance with EU directives, would be a suitable body to undertake this task. The Review Group feels that such an aggregation of responsibilities would not be appropriate and that responsibility for economic regulation in

the water industry should be assigned to a body distinct from the EPA. In Northern Ireland, a single regulator is responsible for electricity, gas and water. The technical challenges of regulation in these three sectors coincide to a large degree.

Recommendation 11: The Review Group recommends that, in the event that a customer-financed water industry structure emerges, this monopoly should be regulated through expanding the role of the Commission for Energy Regulation rather than through the establishment of yet another sector regulator.

There is a widespread public perception, which may or may not be accurate, that remuneration levels and employment conditions in Irish state-owned companies are generous by comparison with other sectors of the economy, including other areas of the public sector, and that this category of state employees has avoided the consequences of worsening economic conditions nationally. This perception extends beyond the widely-publicised pay packages of chief executives. Economic regulators address all issues of operating cost in their determination of allowable price caps under existing arrangements, but the procedures used are not uniform.

Recommendation 12: The Review Group recommends that a comparison be made of pay and conditions in all commercial state companies with those elsewhere in the Irish labour market and in competitor countries, in particular in the UK, in order to assure that the cost structures in these companies are competitive with their counterparts. The outcome of this review should determine the approach of economic regulators to costs allowable in tariff determination.

Monopolies can and do encourage sales through a wide range of marketing activities but they typically do not feel it necessary to finance large advertising budgets in the mass media. The Review Group believes that some Irish state monopolies may have over-indulged in mass market advertising which cannot be justified by reference to commercial requirements.

Recommendation 13: The Review Group recommends that sector regulators should seek explicit justification of mass market advertising budgets from regulated monopolies and should disallow from cost recovery any element they deem commercially unnecessary.

Where an industry sector such as power generation is privately owned and operated it is critical that investors are offered as much regulatory certainty as feasible, given the long-lived nature of their investments. Regulatory uncertainty discourages investors and raises the cost of capital and hence prices to consumers. This should not however prevent necessary evolution of the regulatory regime.

Recommendation 14: The Review Group recommends that the legislation governing economic regulatory bodies should permit them to grandparent certain regulatory provisions for pre-existing operators when regulatory policy changes.

Section 4: The Commercial State Companies in Aggregate

This section discusses the evolution of the aggregate (not consolidated) balance sheet of the commercial state bodies listed in the Review Group's terms of reference, covering developments in assets and liabilities including unfunded pension liabilities, capital expenditure history, capital expenditure commitments and intentions, industrial strategy including acquisitions, dividend history and policy, the structure of debt and credit rating histories where relevant. The figures are aggregate and unconsolidated. There would be some contraction of the aggregate balance sheet on consolidation but we believe that it would be quite minor and that the aggregate balance sheet should be a good guide to the consolidated balance sheet.

4.1 The Aggregate Balance Sheet

The total book value of the state's main commercial companies is approximately €8.3 billion, based on aggregate shareholder funds as reported in their most recently published accounts. This figure should not be taken as a headline estimate of potential disposal proceeds should all of these companies be sold. The reason is that balance sheet book values reflect accounting conventions and are not a good guide to potential proceeds, which could exceed book values in some cases but could also fall short.

Table 4.1: Net Asset Value of Major State Commercial Companies

	Notes	2009 €000
Energy		
ESB		4,032,150
Bord Gáis Eireann		1,401,715
Bord na Móna (March 2010)		224,408
EirGrid		90,332
Total Energy		**5,748,605**
Transport		
Dublin Airport Authority		976,717
Irish Aviation Authority		6,299
Dublin Port		238,270
CIE	**1**	-
Total Transport		**1,221,286**
Communications		
An Post	**2**	-
RTÉ		145,435
Total Communications		145,435
Coillte		1,207,484
Total	**3**	**8,322,810**

Notes 1: CIE has a shareholder deficit of €346.1 million.
2: An Post has a shareholder deficit of €39.8 million.
3: No adjustments have been made for any ESOT or off-balance sheet pension liabilities.

ESB alone accounts for almost half of the aggregate state commercial sector book value, while the energy sector as a whole accounts for almost 70% of aggregate book value.

CIE and An Post have combined shareholder deficits of a little under €400 million, reflecting sizeable balance sheet pension deficits in each case. Taking these shareholder deficits into account reduces the aggregate shareholder value of the state's commercial companies to €7.9 billion. Table 4.2 shows aggregate summarised balance sheets of the top eleven state-owned companies since 2002. The 2009 figures include Bord na Móna data for the year to March 2010.

Table 4.2: Summary Aggregate Balance Sheet of the Major State Commercial Companies 2002-2009

YEAR	2009	2008	2007	2006	2005	2004	2003	2002
-	€000	€000	€000	€000	€000	€000	€000	€000
Summary Balance Sheet								
Property, plant & equipment	18,297,089	16,163,245	14,524,835	13,421,841	12,397,566	11,929,291	10,852,512	9,582,716
Intangible assets	509,103	396,535	300,392	422,323	271,500	165,607	35,880	40,637
Other (non-cash) assets less current liabilities	138,820	-568,898	289,727	53,432	200,880	370,898	361,616	536,811
Capital employed	18,945,012	15,990,882	15,114,954	13,897,596	12,869,946	12,465,796	11,250,008	10,160,164
Equity capital & reserves	7,936,856	6,790,417	7,938,559	6,353,409	5,354,304	4,986,606	5,468,445	5,154,288
Minority interests	5,188	12,772	3,908	3,298	3,319	3,418	3,226	3,129
Net debt / (cash)	4,667,747	3,300,140	2,686,469	3,220,146	3,363,858	3,927,090	3,239,896	2,699,450
Pension liabilities	1,736,015	1,907,043	744,275	973,294	1,242,311	1,189,567	72,003	---------
Capital grants/ deferred income	2,936,368	2,693,300	2,286,559	1,892,212	1,586,490	1,212,026	1,034,051	787,157
Other long-term liabilities	1,662,838	1,287,210	1,455,184	1,455,237	1,319,664	1,147,089	1,432,387	1,516,140
Capital employed	18,945,012	15,990,882	15,114,954	13,897,596	12,869,946	12,465,796	11,250,008	10,160,164

A striking feature of the summary aggregate balance sheet is the rapid growth of investment (capital employed) in commercial state companies. Capital spending in 2008-2009 has accelerated even in the face of significantly lower levels of economic activity. Between 2007 and 2009 capital employed (defined here as total assets, excluding cash, less current liabilities) increased by 25% from €15.1 billion to €18.9 billion. Much of this investment was funded by borrowing, with net debt increasing from €2.7 billion to €4.7 billion over the same period. This was reflected in an increase in the aggregate debt/equity ratio from 34% to 59%. This increase in indebtedness was of course within individual company borrowing limits, which in many cases have been increased substantially in recent years. There was a further substantial increase in borrowing by state companies during 2010: aggregate net debt of state companies increased by over 40% to just under €7 billion, more than double its 2008 level.

The balance sheet values of capital grants have also risen sharply over the past two years, from €2.3 billion to €2.9 billion. CIE accounts for most of these grants.

4.2 Pension Fund Liabilities

Net unfunded pension liabilities of state commercial companies have also shown large increases in recent years. The aggregate value of pension deficits, as disclosed in the balance sheets of the major state commercial companies, totalled €1.7 billion in 2009, compared with €1.9 billion in 2008 and €0.7 billion in 2007. However, these balance sheet figures significantly understate the size of the actual accounting deficits, shown in Table 4.3 below. Accounting rules permit some of the shortfall to be recorded off balance sheet in notes to the accounts. This table also shows that the percentage of pension obligations covered by pension assets has fallen below 70% in each of the past two years, despite high levels of pension contributions on the part of most state commercial companies. The percentage of total pension liabilities covered by plan assets has ranged over the period from 84% in 2007 to 62% in 2008, with a partial improvement to 69% in 2009.

Table 4.3: Aggregate Pension Assets & Liabilities

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
Pensions								
Present value of funded pension obligations	11,057,759	10,917,656	11,466,426	11,999,618	11,183,636	9,641,528	6,535,626	5,767,142
Fair value of plan assets	-7,626,965	-6,714,883	-9,687,211	-9,706,658	-8,701,137	-7,247,436	-5,086,317	-4,413,681
Deficit for funded plan	3,430,794	4,202,773	1,779,215	2,292,960	2,482,499	2,394,092	1,449,309	1,353,461
Pension assets as % of obligations	69%	62%	84%	81%	78%	75%	78%	77%

The aggregate pension deficits for 2009 and 2008 as disclosed in the notes to the accounts are, at €3.4 billion and €4.2 billion respectively, approximately twice the balance sheet amounts for these years. The difference is primarily attributable to the accounting treatment of pensions at ESB, which has opted to defer the unrecognised portion of the pension deficit over the future service lives of the employees. As a result, the pension deficit shown on ESB's balance sheet at end 2009 was €0.5 billion (2008: €0.3 billion), compared with an actual accounting deficit for its funded plan of just under €2.2 billion (2008: €2.6 billion). The accounting treatment is entirely within the rules, and is fully explained in notes to the accounts. ESB has since reached agreement with its workforce on new pension arrangements which will substantially reduce this shortfall on its pension scheme.

Most state commercial companies provide final salary defined benefit pension schemes to their employees, although in some cases these schemes are closed to new entrants. In general, the pension arrangements of state commercial companies look to be more generous than those provided by private sector companies. Table 4.4 below provides an aggregate of employee remuneration packages in the major state commercial companies. The issue is dealt with in further detail in Appendix 1.

Table 4.4: State Commercial Companies: Aggregate Employee Remuneration

	Average number of employees	Wages & salaries	Employer pension contributions	Average pay (wage/salary)	Employer pension contributions as % of pay	Average pay including employer pension contributions
		€000	€000	€000		€000
Dec-09	40,178	2,194,913	344,683	54.6	15.7%	63.2
Dec-08	40,589	2,243,730	289,736	55.3	12.9%	62.4
Dec-07	40,178	2,138,018	303,271	53.2	14.2%	60.8

4.3 Operating Performance

Revenues of state commercial companies have not been immune to the decline in economic activity over the past two years. Aggregate revenues of the major state commercial companies, excluding CIE, showed a marginal increase in 2008, up 1.8% to €7.96 billion, before declining by 8% to €7.31 billion in 2009. Table 4.5 below summarises the financial performance of the state commercial companies since 2002. CIE is not included in this analysis as, unlike the other companies, it is heavily reliant on state subventions.

Table 4.5: Operating Summary 2002-2009

Year	2009	2008	2007	2006	2005	2004	2003	2002
Income summary state companies (excluding CIE)	€000	€000	€000	€000	€000	€000	€000	€000
Revenue	7,315,980	7,960,246	7,820,997	6,863,446	5,967,800	5,397,941	5,091,751	4,717,722
EBITDA	1,506,172	1,452,641	1,682,545	1,368,810	1,258,844	1,048,669	1,055,273	865,705
Operating profit before exceptionals	678,142	744,712	1,024,377	719,543	662,828	531,451	535,850	436,486
PBIT before exceptionals	733,960	819,534	1,088,594	761,299	715,757	576,193	571,671	481,320
Profit before tax	719,516	637,530	1,353,108	800,683	562,506	436,714	491,029	289,223
Earnings	655,878	553,678	1,201,577	666,559	513,451	370,601	420,946	218,913
Earnings before gain on ESB asset disposal	390,874	553,678	1,201,577	666,559	513,451	370,601	420,946	218,913
Dividends paid	-336,315	-178,460	-87,318	-85,318	-87,506	-84,142	-37,745	-42,806
Financial Ratios								
Operating margin	9.3%	9.4%	13.1%	10.5%	11.1%	9.8%	10.5%	9.3%
Revenue/avg. capital employed (x)	0.49	0.60	0.62	0.59	0.53	0.51	0.53	----
Avg. return on capital employed (before tax)	4.9%	6.2%	8.6%	6.5%	6.4%	5.4%	6.0%	----
Avg. return on equity (after tax)	5.1%	7.4%	17.0%	11.4%	9.8%	7.2%	8.2%	----
EBITDA interest cover (x)	7.3	8.6	10.7	8.2	7.0	5.6	7.8	8.8
Debt/EBITDA (x)	3.0	2.2	1.6	2.3	2.6	3.6	3.0	2.9
Debt/equity	55%	46%	33%	49%	60%	75%	60%	50%

The overall profitability of state commercial companies has deteriorated sharply since 2007, reflecting weakening margins and lower levels of asset turnover. Operating profits before exceptional items have fallen by almost a third over the past two years. Pre-tax profits do not serve as an appropriate yardstick of performance as they can be distorted by sizeable once-off items such as the €265 million windfall earned by ESB in 2009 on the disposal of generation assets. The same applies to earnings. Because of the relative significance of this exceptional gain, 2009 earnings of the state commercial companies have been adjusted in the above analysis from €655 million to €390 million.

The 2009 levels of operating profits and PBIT before exceptionals are broadly back to 2005 levels. Earnings (adjusted for ESB's profit on disposal of generation assets) are below 2003 levels. However, reflecting continued high levels of capital spending, returns on investment in 2009 were by some way the lowest over the period under review. Average return on capital employed, based on PBIT before exceptional items, fell to just 4.9% in 2009, from 6.2% in 2008 and 8.6% in 2007. These returns include the share of profits from joint ventures and associates. Average return on equity in 2009 was also down sharply from 7.4% to 5.1%. Return on equity in 2006 and 2007 included sizeable once-off gains on disposals.

EBITDA-based debt ratios showed a marked deterioration in the two years to end-2009, reflecting a 10.5% decline in EBITDA since 2007 and an increase in net debt levels of over 70%. Net debt/EBITDA almost doubled from 1.6 times in 2007 to 3.0 times in 2009. EBITDA interest cover was down from 10.7 times to 7.3 times. While financial ratios at these levels are not, of themselves, a cause for alarm (they were weaker still in 2004-2005, for instance) they are of some concern in the context of sluggish economic growth, continuing high levels of planned capital investment and nervous capital markets.

Other things equal, higher levels of indebtedness, together with sizeable pension deficits, serve to reduce the attractiveness of commercial companies to prospective investors. It is important, whether or not disposal is contemplated, that capital spending be contained and that pension deficits are addressed. Higher debt levels also reduce the scope for future dividend payouts by state-owned companies. Dividend payments by state commercial companies in 2009 totalled €336 million, compared with €178 million in 2008. However, the 2009 payouts included a special dividend from ESB of €185 million relating to the exceptional profit on the sale of generating assets in that year. Excluding this special payout, the total of ordinary dividends paid by state commercial companies during 2009 fell by 15% to €151 million. This represented 27% of the previous year's earnings, compared to 15% in 2008 and 13% in 2007. Excluding the special ESB dividend, 2009 dividends were equivalent to a little under 2% of year-end shareholders' funds. By comparison, European energy utilities, for instance, currently offer a dividend yield of over 5% and the average dividend payout represents over 60% of earnings, more than double that paid by the Irish state commercial energy companies during 2009.

4.4 The Special Case of CIE

CIE makes substantial losses at the operating level, €370 million in 2009 and €390 million in 2008, and receives substantial operating payments known as Public Service Obligation (PSO) payments to offset losses on non-commercial public transport services. These PSO payments amounted to over €300 million in each of the past three years. In addition, CIE

receives substantial capital grants, which have increased very significantly in recent times. In the three years 2007-2009 capital grants to CIE averaged just over €500 million annually, 80% up on the average paid over the previous three years.

Over the period of eight years from 2002 to 2009, CIE received over €3 billion in capital grants, most of which went on railway capital works. In 2009, Iarnród Éireann accounted for 73% of total capital grants paid to CIE and 67% of CIE's total grant funding. Between 2002 and 2009, almost €2.3 billion has been spent on railway capital works, without any reduction in the requirement for operating subsidy.

Table 4.6: Grants to CIE

	2009	2008	2007	2006	2005	2004	2003	2002
CIE	€000	€000	€000	€000	€000	€000	€000	€000
Operating grants	315,960	321,093	320,163	298,681	283,427	267,786	262,476	252,724
State & EU capital grants	441,812	596,821	471,185	345,473	311,202	175,298	395,369	283,042
Total grant funding	757,772	917,914	791,348	644,154	594,629	443,084	657,845	535,766
Iarnród Éireann								
Operating grants	183,396	193,618	203,490	202,377	193,327	181,977	185,753	174,893
State & EU capital grants	321,756	431,455	283,671	248,829	316,851	133,739	335,473	214,172
Total grant funding	**505,152**	**625,073**	**487,161**	**451,206**	**510,178**	**315,716**	**521,226**	**389,065**

4.5 CEO Remuneration

The Government announced, in the Budget on 7 December 2010, reductions in the remuneration packages of CEOs at the Irish state companies. Although a number of companies have scaled back the financial packages paid to their CEO's over the past two years, the effect of this has been offset by hikes in remuneration elsewhere, as shown in Table 4.7 below. Indeed, in some cases a reduction in the basic salary has been more than compensated by an increase in other elements of the overall remuneration package.

Table 4.7: Chief Executive Remuneration 2007-2009 (€)

ESB	Dec-09	Dec-08	Dec-07
Salary	432,688	458,309	376,879
Pension	70,961	75,163	59,754
Other	248,919	120,849	98,365
Total	752,568	654,321	534,998
Bord Gáis	**Dec-09**	**Dec-08**	**Dec-07**
Salary	270,000	288,000	213,000
Pension (not shown separately)			
Other	124,000	73,000	248,000
Total (excluding pension)	394,000	361,000	461,000
EirGrid	**Sep 2009**	**Sep 2008**	**Dec-2007**
Salary	228,000	216,000	194,000
Pension	68,000	68,000	58,000
Other	111,000	73,333	73,333
Total	407,000	357,333	325,000
Bord na Móna	**Mar-2010**	**Mar-2009**	**Mar-2008**
Salary	231,000	247,000	289,000
Pension	58,000	62,000	39,000
Other	103,000	110,000	37,000
Total	392,000	419,000	365,000
Coillte	**Dec-09**	**Dec-08**	**Dec-07**
Salary	297,000	297,000	254,000
Pension	74,000	74,000	63,000
Other	46,000	118,000	92,000
Total	417,000	489,000	409,000
DAA	**Dec-09**	**Dec-08**	**Dec-07**
Salary	320,400	347,900	333,000
Pension (not shown separately)			
Other	247,700	290,600	365,000
Total	568,100	638,500	698,000
IAA	**Dec-09**	**Dec-08**	**Dec-07**
Salary	232,000	253,000	207,000
Pension (not shown separately)			
Other	92,000	159,000	143,000
Total	324,000	412,000	350,000
Dublin Port	**Dec-09**	**Dec-08**	**Dec-07**
Salary	239,000	222,000	214,000
Pension (not shown separately)			
Other	78,000	77,000	76,000
Total	317,000	299,000	290,000
RTÉ	**Dec-09**	**Dec-08**	**Dec-07**
Salary	276,000	298,000	283,000
Pension	24,000	24,000	23,000
Other	26,000	26,000	135,000
Total	326,000	348,000	441,000
An Post	**Dec-09**	**Dec-08**	**Dec-07**
Salary	386,000	379,000	353,000
Pension	77,000	75,000	70,000
Other	37,000	39,000	100,000
Total	500,000	493,000	523,000
Aggregate CEO Remuneration	**4,397,668**	**4,471,154**	**4,396,998**

Note: CIE discloses remuneration of Executive Chairman

It is a matter for the boards of state companies to satisfy themselves in the first instance as to whether these rates of remuneration reflect the duties carried out, the levels necessary in the market to attract the relevant talent, and the performance of duties and achievement of key goals. The Group is not in a position to second-guess the boards in making such an evaluation.

4.6 Debt Market Activities and Credit Ratings

As can be seen from Table 4.8, three companies (ESB, Bord Gáis and DAA) account for the bulk of major state commercial company borrowing – just under 90% of aggregate gross borrowings and 100% of aggregate net borrowings.

Table 4.8: Major State Commercial Companies – Financial Summary

		Total Debt	Private Placement Notes	Bonds	Cash	Net Debt/ (Cash)	Net Debt to EBITDA
		€m	€m	€m	€m	€m	
ESB	Dec-09	2,230.7	1,036.1		0	2,230.7	2.7
Bord Gáis	Dec-09	2,356.8	730.2	550.0	546.2	1,810.6	5.7
DAA	Dec-09	1,254.2		850.0	638.2	616.0	4.9
Coillte	Dec-09	178.9			1.5	177.4	3.2
CIE	Dec-09	119.9			1.5	118.4	N/M
Bord na Móna	Mar-10	263.8	262.7		206.7	57.1	0.9
Dublin Port	Dec-09	39.7			0.8	38.9	1.2
IAA	Dec-09	15.0			19.7	(4.7)	
EirGrid	Sep-09	123.9			153.9	(30.0)	
RTÉ	Dec-09	0.0			58.8	(58.8)	
An Post	Dec-09	2.5			290.1	(287.6)	
Total		6,585.4	2,029.0	1,400.0	1,917.4	4,668.0	

CIE does not have significant debt but recall that its very large capital programme has been financed by straight grants, in effect free capital which gives rise to zero debt service costs. All three companies (ESB, Bord Gáis and DAA) have successfully accessed international debt markets, helped by their relatively large scale and by the fact that they have Regulated Asset Bases that can be readily leveraged. Markets are especially attracted to state-owned electricity and gas networks. Supportive regulatory regimes are normally a given for such companies and markets take added comfort from the probability of state support in the unlikely event of financial distress. In the past, this has often been built into credit ratings but this has changed in the past few months with respect to Irish state companies. Note, however, that borrowings of these state companies do not enjoy explicit state guarantees.

Standard & Poor's assigned ESB a BBB+ long-term rating in January 2011, which was placed on a negative CreditWatch. Fitch assigned a BBB+ rating with stable outlook. Moody's assigned a Baa1 long-term rating (equivalent to Standard & Poor's BBB+ rating), with a negative outlook. These ratings reflect ESB's stand-alone credit profile and did not incorporate any uplift for government ownership, given the recent deterioration in the sovereign's ratings.

Bord Gáis has had credit ratings from Standard & Poor's (S&P) and Moody's since 2003, when it raised US$400 million (€343 million) in the US private placement market. It tapped the private placement market again in March 2009, when it raised US$450 million (€386 million), bringing the value of its total private placement debt to €730 million. In 2009 it also issued a €550 million Euro Corporate Bond at a fixed coupon of 5.75%.

In December 2010, Moody's downgraded Bord Gáis's debt by one notch from A2 to Baa1 (equivalent to a rating of BBB+ from Standard & Poor's), in line with its stand-alone credit rating, on the grounds that the normal sovereign uplift no longer applied following the decline in the Irish state's creditworthiness. Moody's rates the outlook as negative, reflecting the potential consequences for Bord Gáis of the decline in the government's financial strength.

Dublin Airport Authority had notes totalling €850 million in issue at the end of 2009, of which €250 million (issued in 2001 at 6.15%) are due for repayment in 2011. The balance of €600 million (issued at 6.6% in July 2008) is due in 2018. At end 2009, DAA had cash balances of €638 million, equivalent to over half of gross debt (€1,254 million). In addition, DAA had undrawn borrowing facilities at that time of €560 million, which have no financial covenants or ratings triggers. DAA looks to have adequate financial resources to see it through the next few years notwithstanding note repayments in 2011.

In November 2010, Standard & Poor's revised its previous opinion on the likelihood of extraordinary support for DAA from "moderate" to "low," reflecting the government's reduced capacity to provide support to DAA. This led to a reduction in DAA's rating to BBB from BBB+. DAA was also placed on Credit Watch negative, reflecting uncertainty over future passenger traffic at Dublin Airport in the context of the weak economic environment in Ireland. In April 2011, the BBB rating was affirmed on foot of improved performance and DAA was removed from Credit Watch.

Bord na Móna has also tapped debt markets twice. In 2006, it raised US$150 million (€117.5 million), and in 2009 it completed a private placement of US$205 million (€146 million) senior unsecured notes with average maturities of approximately 8 years. These notes account for the whole of Bord na Móna's debt of €263 million at end March 2010. As the company had, at the same time, cash balances of €206 million, net debt at that date was just €57 million.

It is possible, and has happened in some countries, for state companies to enjoy credit ratings superior to those of the sovereign. We understand that listed bonds of some of the Irish state companies have traded recently in secondary markets at yields lower than the corresponding sovereign bonds. No Irish state company has tapped the bond markets since ESB raised £275 million in 6.5% 10 year notes under a €3 billion Euro Medium Term Note Programme in March 2010.

4.7 Corporate Governance and Other Issues

The analysis set out above suggests insufficiently active shareholder involvement in setting performance targets for commercial state companies. A common thread is the limited dividend return to the shareholder and investment of capital with inadequate focus on

securing an acceptable rate of shareholder return. The first criterion that any shareholder in commercial companies will apply is the return on investment in the form of dividends.

4.8 Dividend Policy

One of the main arguments put forward for retaining state ownership is that commercial state companies provide dividends to the state. The rate of dividend paid by state companies is, however, low and reliability is patchy. Some clearly profitable companies have paid poor dividends for long periods of time.

Table 4.9: Dividends Paid by Certain State Bodies 2002-2009

	2009	2008	2007	2006	2005	2004	2003	2002
	€m	€m	€m	€m	€m	€m	€m	€m
Bord Gáis	39,074	28,372	8,361	9,079	10,093	9,679	9,796	21,735
Bord na Móna	5,257	12,894	8,035	3,850	NIL	67,118	19,704	20,000
ESB	81,867	129,486	66,722	72,389	77,413	NIL	NIL	NIL
ESB (special dividend)	185,317	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Coillte	NIL	2,600	NIL	NIL	NIL	NIL	NIL	NIL
Dublin Airport Authority	19,400	NIL	NIL	NIL	NIL	6,074	7,245	NIL
Dublin Port Co.	5,300	5,108	4,200	NIL	NIL	1,271	1,000	1,071
TOTAL[4]	336,215	178,460	87,318	85,318	87,506	84,142	37,745	42,806

The picture has improved somewhat in the recent past with a general guideline of a 30% dividend now in place. This, it seems, has been taken to apply to normal profits as dividends have not been paid in all cases out of windfall gains. The rate of 30% is not an overly demanding target. The rate paid by public utilities abroad is often much higher.

The state is not merely a shareholder interested solely in a regular cash return. There are longer term, strategic goals that require that the reserves of state companies be built up, e.g. to fund investment, especially as the state is usually unwilling to subscribe further capital resources itself. On the other hand, the lack of dividend discipline may have encouraged firms to over-invest in capital without seeking an adequate rate of return or, in some cases, to plug pension holes at the shareholder's expense rather than by seeking more realistic benefit levels and staff contributions.

[4] Includes special dividends and payments to Employee Share Option Schemes.

Recommendation 15: The Review Group regards the regular payment of a reasonable dividend to the shareholder as good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.

4.9 Shareholder Value

The Group has noted the large and rapid increase in capital investment by commercial state companies at a rate faster than the growth rate in revenue and at low rates of return. This expansion has been financed largely by debt entailing in many cases the provision of covenants to lenders which penalise or prevent the disposal of assets by the company, or a change in its ownership, or which constrain dividend payments.

This rapid expansion of capital and the grant of such covenants reduces shareholder value and can be prejudicial to the shareholder's interest. In the Group's view, the government should set and monitor financial ratios to be achieved by companies on an ongoing basis, including the granting of covenants to lenders. These comments raise the issue more generally of governmental oversight of state companies' activities. The Review Group believes that a better outcome could be assured and a more relevant supervision of performance could be ensured if the following arrangements were followed.

The parent departments of Irish semi-state companies, such as the Department of Transport and the Department of Communications, Energy and Natural resources, are responsible for a range of tasks that includes:

- the formulation and execution of policy;
- oversight and supervision of the regulatory process, including changes to legislation;
- participation in the shareholder function with the Department of Finance.

The joint exercise of regulatory oversight, company ownership and policy formulation and execution creates the potential for conflicts with the shareholder function. Irish state companies, bearing in mind that many of their activities compete with private sector companies and that the government has a disposal option in all cases, need the shareholder function to be exercised independently of policy execution. State-owned commercial companies should be subject to the prevailing policy framework on the same basis as other actors, but there is the potential for excess cost imposition where they are also direct instruments of policy. Accordingly, the exercise of the shareholder function needs to be separated from the functions of policy formulation and execution.

The shareholder function should be more clearly allocated to the Minister for Finance. This would involve, in particular, earlier consultation on major acquisitions or capital investment and an annual discussion of likely dividends and dividend policy.

In addition, policy issues in relation to state enterprise generally and the sale or retention of such enterprises in state ownership should be made the primary responsibility of the Minister for Finance. A dedicated policy unit should also be established in the Department of Finance to deal with a possible programme of state asset sales whether shares, property or intangibles.

Recommendation 16: The Review Group recommends that the exercise of the shareholder function in all state commercial companies should be centralised in a specialised unit located in the Department of Finance. This unit should also take responsibility for whatever asset disposal programme is decided on by government.

Section 5: State Energy Companies and the Policy Framework

The Review Group believes that alternative ownership options for state energy companies need to be considered in the context of energy policy and with due regard to the adequacy of the regulatory regime. If there are weaknesses in policy or in regulation, any privatisation of state assets is attended by additional risks to the public interest. In a recent report, the Irish Academy of Engineering (2011) has stressed the key role of the energy industry in restoring competitiveness:

> '*In industry efficiency terms the Irish electricity sector does not match the performance of its EU peers when pre-tax price comparisons are used as an economic metric. There is an opportunity to lower costs/prices further over the next five to ten years by:*
>
> *- Minimising capital expenditure in the sector.*
>
> *- Taking advantage of increased supplies of low priced internationally traded natural gas*."

5.1 The State's Involvement in Energy

In both electricity and gas, the state is a major player in Ireland's energy industry. The Electricity Supply Board (ESB) (Section 6) remains the largest undertaking in state ownership by some margin, accounting for roughly one-half of the state commercial sector when measured by net assets. Moreover, the electricity industry is a critical economic sector, and its structure and performance have economy-wide consequences.

The state presence in the energy sector also includes Bord Gáis Éireann (BGÉ) (Section 8), a smaller company than ESB but substantial nonetheless. BGÉ was principally a gas transmission, distribution and supply business, but it has expanded into renewable (wind) and gas-fired power generation as well as electricity supply. The state also owns Bord na Móna (Section 10), which is involved in peat production and power generation including wind, and Coillte (Section 11), which sells forest product into the power generation industry and has begun to develop interests in wind farms.

Thus, more by accident than design, the state owns three companies (ESB, BGÉ and Bord na Móna) that have competing interests in the electricity generation sector and one (Coillte) which has development interests in wind power. Private companies have been competing with ESB in the power generation business for over a decade. The state also owns two companies (ESB and BGÉ) which compete with each other and with a private operator in the electricity supply (retail) business. Gas and electricity networks businesses are normally seen as natural monopolies, but competition is both possible and desirable in power generation and in supply. However, the pattern which has emerged of competing companies in common ownership lacks coherence from the shareholder standpoint, and it appears to involve internal cross-subsidisation between regulated and competitive businesses.

Four components in the energy sector, all state-owned, are natural monopolies. These are the high-voltage electricity transmission system, owned by ESB but operated by the independent state company EirGrid; the low-voltage electricity distribution system, owned and operated by ESB; the high-pressure gas pipeline network, including interconnectors and the low-pressure distribution system, both owned and operated by BGÉ. All four are subject to economic regulation by the Commission for Energy Regulation and are governed by applicable EU directives designed to facilitate fair third-party access, competition and ultimately the single European energy market.

5.2 The Design of Energy Policy

The Review Group is conscious that any consideration of disposal options in the state energy companies must be undertaken in the context of ensuring an industry structure that delivers secure supplies at lowest cost. The recent report from the Irish Academy of Engineering concludes:

> *'The unprecedented economic crisis in Ireland has created circumstances that require a rapid and fundamental change in energy policy in order to support economic recovery. A short term (five year) policy perspective is urgently required. For the next five years the overriding priority in the energy sector is to achieve significant cost reductions in order to facilitate competitiveness in the productive, particularly the export, sectors of the economy. Given the constraints on the Irish economy, the priority for short term policy is the minimisation of energy costs and energy sector capital investment.'*

Ireland is a substantial importer of primary energy and is heavily gas-reliant in power generation. There are also plans for heavy investment in renewable energy, particularly in wind power and the associated transmission and back-up investment. The Group has reservations about the advisability in the public interest of heavy commitments to sunk costs in the form of renewable generation assets and the transmission infrastructure needed to connect them to the grid. Ireland has international commitments to emission reduction, as a member of the EU and as a signatory to the Kyoto agreement. These should of course be honoured, but at minimum cost to an economy which is struggling with serious competitiveness problems.

5.3 Gas Reliance and Security of Supply

Ireland's high reliance on natural gas, particularly for power generation, equates to a reliance on imports given the run-down of Celtic Sea production and the extended delay to production from Shell's Corrib discovery offshore Mayo. Current plans to shift power generation increasingly to reliance on renewables, particularly wind, are sometimes grounded in security of supply arguments. The contribution of wind power to security of supply is, however, limited by the intermittency of the wind resource. Electricity cannot be stored and must be produced hour-by-hour in lock-step with demand. Intermittent supplies such as wind must be backed up by conventional generation, such as oil, gas or coal. While oil prices in the medium and long-term can reasonably be expected to stay high or indeed to increase further, Ireland is reliant to a limited and diminishing extent on oil-fired power generation. But the picture for gas supplies and prices is less threatening.

The importance of gas is shown in the table below, which is extracted from the Sustainable Energy Authority of Ireland's 2010 report on energy in Ireland. It shows that natural gas is by far the main fuel used in electricity generation in Ireland, at 57% in 2009, with the next largest source being coal, at just 17.6% of total fuel mix used.

Table 5.1: Growth Rates and Shares of Electricity Generation Fuel Mix

	Growth%	Average Annual Growth Rate%						Share%	
	1990-2009	90-09	90-95	95-00	00-05	05-09	2009	1990	2009
Fossil Fuels (Total)	45.1	2.0	4.4	4.9	-0.2	-1.9	-7.8	98.1	90.9
Coal	-31.6	-2.0	3.8	-0.0	-0.2	-11.9	-18.6	40.3	17.6
Peat	-5.0	-0.3	-1.0	-3.1	0.8	2.9	1.3	19.5	11.8
Oil (Total)	-36.9	-2.4	12.9	10.7	-5.7	-27.4	-38.6	11.0	4.4
Fuel Oil	-39.6	-2.6	12.6	10.5	-6.9	-26.7	-39.8	10.8	4.2
Gas Oil	8.5	0.4	16.5	13.3	18.8	-41.8	-24.4	0.2	0.2
Gas	227.3	6.4	4.7	11.5	2.3	7.8	-1.8	27.3	57.0
Renewable (Total)	524.5	10.1	0.9	13.4	8.9	20.1	13.8	1.9	7.7
Hydro	29.4	1.4	0.5	3.5	-5.7	9.3	-6.9	1.9	1.6
Wind	-	-	-	72.4	35.4	27.7	22.6	0.0	5.3
Non- Renewable (Wastes)	-	-	-	-	-	-	-	0.0	0.0
Combustible Fuels (Total)	46.5	2.0	4.4	5.1	-0.2	-1.8	-7.7	98.1	91.8
Electricity Imports (Net)	-	-	-	45.6	83.6	-21.8	69.6	0.0	1.4
Total	**56.5**	**2.4**	**4.3**	**5.2**	**0.7**	**-1.3**	**-5.9**		

Source: Sustainable Energy Authority of Ireland's *Energy in Ireland 1990-2009 (2010 Report).*

The economics of wind power are dependent on a comparison of costs, allowing appropriate credit for the savings in CO_2 emissions, with the costs of alternatives. High prospective gas prices favour greater investment in wind, all other things being equal. The most significant development in international energy markets in the last few years has been the altered medium-term outlook for gas supplies and prices. Briefly, improvements in exploration and extraction technologies in North America have increased dramatically the estimates of recoverable reserves and have reduced sharply the likely level of import demand in the United States. This has in turn re-focussed Arabian Gulf and other suppliers on the European market where prices are now expected to moderate into the medium-term, notwithstanding short-term pressures in the market arising from the crisis in Japan. In addition to pipeline supplies from Russia and North Africa, European importers have been investing in liquefied natural gas (LNG) facilities and potential supplies have been diversified. In its recent World Energy Outlook, the International Energy Agency (2010) summarises the position thus:

> *'The glut of global gas-supply capacity that has emerged as a result of the economic crisis (which depressed gas demand), the boom in US unconventional gas production and a surge in liquefied natural gas capacity (LNG), could persist for longer than many expect. Based on projected demand in the New Policies Scenario, we estimate that the glut, measured by the difference between the volumes actually traded and total capacity of inter-regional pipelines and LNG export plants, amounted to about 130 bcm in 2009; it is set to reach over 200 bcm in 2011, before starting a hesitant decline. This glut will keep the pressure on gas exporters to move away from*

oil-price indexation, notably in Europe, which could lead to lower prices and to stronger demand for gas than projected, especially in the power sector.'

An additional supply security consideration is gas storage which is widely regarded as inadequate in Europe.

Recommendation 17: The Review Group recommends that policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.

Estimates of the world's recoverable reserves of natural gas have been revised upwards in recent years in response to the enhanced technical capacity to recover so-called 'unconventional' reserves, especially shale gas. One consequence is the increased availability of LNG supplies in the European market as capacity originally constructed with a view to supplying the United States is re-directed (see Helm (2011)). Ireland's supply security would be enhanced if, in addition to UK pipeline interconnection, domestic production from Corrib and enhanced storage capacity, facilities were available to import and store LNG.

Recommendation 18: The Review Group recommends that, if security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.

5.4 Targets for Wind Energy Penetration in Power Generation

The optimal economic deployment of wind in the power generation mix will depend on the price of natural gas as well as on the price of carbon. Wind power makes economic sense, all other things being equal, if gas (the practical alternative) or carbon is expected to be expensive. The improved outlook for gas availability and price in recent years worsens the economics of wind power for a given carbon price.

A power system with a high dependence on intermittent generation in the form of wind incurs direct construction cost in supplying the generation capacity, but also hidden cost in several forms. There is a greater requirement for network investment to connect generators and to provide interconnection to external power systems in the interests of system stability. Conventional generation capacity must be maintained due to the intermittency of the wind resource, and base-load generators in particular will face lower utilisation and higher maintenance and depreciation charges due to cycling (intermittent operation). Neither of these system costs enters the calculations of wind generators since they do not bear them in the current market structure. Extra network costs are socialised through the practice of 'postalisation' of transmission costs, that is, their recovery from customers rather than from generators. Wind generators therefore face transmission charges which do not reflect the incremental capital costs created by their location decisions. Costs imposed through intermittency on conventional generators are also socialised or borne directly by

them. The value of the existing stock of conventional power stations, including those owned by the state, is diminished in a power system with large intermittent supplies which attract dispatch priority.

The current official targets for renewable power generation (for practical purposes targets for wind-power given currently available technologies) are motivated by a desire to cut carbon emissions, but they imply heavy capital investment in both generation and transmission notwithstanding the subdued outlook for electricity demand.

Recommendation 19: The Review Group recommends that carbon emission targets should be pursued on a least-cost basis and that current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.

5.5 Generation and Transmission Adequacy

The requirement for additional generation capacity in Ireland derives mainly from the policy to shift to wind generation, rather than to meet prospective increases in demand. The recent All-Island Generation Capacity Statement (SONI/Eirgrid 2010) notes that total demand in the all-island market will be no greater in 2013 than it was in 2008. It projects peak demand for the island as a whole at about 6,400 MW in 2011, rising to 7,000 MW on the low projection in 2020 with a high projection of 7,800 MW. Dispatchable capacity on the island (i.e. the amount of capacity the system can produce contemporaneously with demand) will rise to just over 10,000 MW in 2012 with the commissioning of the East-West interconnector and is not expected to fall below 9,000 MW in any year up to 2020 even with the planned closures of some older stations. Installed wind capacity, which is not dispatchable (i.e. cannot be produced on demand as it is dependent on the weather), will more than double to over 4,350 MW by 2020 on current plans. This capacity will in effect replace available conventional capacity (which will no longer be fully utilised) and is not necessary to meet incremental demand. The substantial investment plans for both transmission and distribution are thus intimately connected to the targets for wind penetration. The recent Academy of Engineering report observes:

> *'The only stated justification currently evident for continuing investment in generation capacity is the obligation Ireland has to supply 16% of its gross final energy requirements from renewables by 2020. The Government has chosen to meet this obligation by providing at least 40% of its electricity generation from renewables (mainly on-shore wind) by 2020. This latter decision is based on Irish policy development and is not an EU obligation. Not only does this require a major capital investment in wind generation it also requires an almost equally large investment in network infrastructure because of Ireland's policy of permitting virtually random location of new generation with much of the network cost subsequently "socialised" and paid for by the consumer. The projected amount of wind generation needed to achieve this objective also requires further large capital investment in*

interconnection to other countries in order to ensure the stability of the Irish power system under conditions of high wind production.'

The Academy argues that cheaper methods of reducing carbon emissions, in particular energy conservation measures such as improved insulation of buildings, have lower overall economic costs, and concludes:

'The Academy is strongly of the view that the proposed capital investment in renewables for the period to 2015 should be greatly curtailed or totally suspended in view of Ireland's surplus installed generating capacity, and the emerging global gas glut. Failure to respond to the transformed global energy situation, cheap gas and the national economic circumstances will result in reduced rather than improved Irish competitiveness.'

5.6 Restructuring the Energy Regulatory System

The Review Group is conscious that any re-structuring of the gas and electricity industries requires a regulatory regime suited to the new circumstances. The regulation of natural monopolies is complex and many countries have gone through several phases of regulatory reform. The privatised portion of the electricity industry (equating to virtually all of it in some countries, including the United Kingdom) changes shape as companies acquire and divest business units and wholesale electricity markets have been re-designed. In Ireland, the latest re-design has integrated the wholesale markets North and South. Europe's wholesale markets are becoming more integrated through improvements to interconnection capabilities. A small number of pan-European companies have emerged in the power industry which economists regard as oligopolistic in nature. These developments, even if no ownership changes were contemplated, persuade us that a full review of energy regulation should be undertaken at an early date.

Recommendation 20: The Review Group recommends that an early review, before divestment, be undertaken of the system of energy regulation in Ireland.

The review, which should be conducted by persons familiar with energy regulation systems internationally, should consider the robustness of existing arrangements in the light of possible ownership changes, and *inter alia* the extent to which the progressive integration of electricity markets across national frontiers implies better coordination, or merger, of regulatory functions between neighbouring European countries.

Section 6: Electricity Supply Board (ESB)

ESB owns Ireland's electricity transmission network (which is operated independently by EirGrid), owns and operates Ireland's electricity distribution network, and generates and supplies electricity in Ireland and other countries. Ireland accounted for 94% of group sales in 2009.

ESB was established as a statutory corporation under the Electricity (Supply) Act 1927 and operates under the Electricity (Supply) Acts 1927 to 2004. It is majority-owned by the state through the Minister for Finance (85%) and the Minister for Communications, Energy and Natural Resources (10%). The remaining 5% is held by an Employee Share Ownership Trust.

6.1 Organisational Structure

ESB Group consists of three core operational divisions:

- ESB Networks, which holds the group's transmission and distribution assets;
- ESB Energy International, which holds the group's generation assets and related trading functions as well as its international activities; and
- Energy Solutions, which consists primarily of the group's energy supply businesses.

6.2 ESB Networks: Electricity Transmission and Distribution

ESB Networks (ESBN) owns Ireland's electricity distribution and transmission systems. It is a regulated monopoly whose activities are regulated by the Commission for Energy Regulation (CER) and subject to ring-fencing arrangements. The transmission and distribution networks provide ESB with a Regulated Asset Base (RAB) of €6.0 billion (€1.2 billion for the transmission system assets and €4.8 billion distribution system assets).

ESBN was established as a separate company to act as independent operator of the electricity distribution system in Ireland with effect from 1 January 2009. It holds a Distribution System Operator (DSO) licence from the CER. It is a wholly-owned subsidiary of ESB and is subject to corporate governance oversight by the board of ESB, but it operates independently in the exercise of its DSO functions. ESBN is also responsible for distribution system development and the construction, operation, and maintenance of over 245,000 transformers and over 160,000km of distribution networks. It is also responsible for the installation and maintenance of meters, for reading all end-user meters and for the processing of meter readings. It has a staff of approximately 3,500, who are supplemented by external resources when required.

ESBN also holds a Transmission Asset Owner (TAO) licence from CER. Its role as TAO is carried out under an agreement entered into with EirGrid, which is the operator of the electricity transmission system. This agreement has been approved by the CER. ESBN is responsible for the construction and maintenance of the transmission network, which comprises 30 large transmission stations and over 6,600km of lines at three voltage levels: 400kV, 220kV and 110kV. Revenues derive principally through charges for connection to and use of the transmission system, as regulated by the CER.

6.3 ESB Energy International

ESB Energy International (ESB Energy) consists of the group's two key generation portfolios, as well as its international investment arm and international consulting and engineering division. The two generation portfolios are known as ESB Power Generation (ESBPG), which consists of the previously regulated generation portfolio in Ireland, and ESB Independent Generation (ESBIg), which consists of the unregulated generation portfolio on the Island of Ireland and internationally, including wind assets.

Combined, these two portfolios consist of 20 power generation stations, primarily in Ireland (including one in Derry) but with two in the UK and one in Spain. ESB Power Generation consists of 13 power generation plants in Ireland, with a combined generating capacity of 3,369MW. In 2009, these two portfolios gave ESB a market share (on a sales volume basis) of 43% in the Single Electricity Market (SEM) (ESBPG 27%, ESBIg 16%) and 41% of the generation capacity on an All-Island basis (ESBPG 31%, ESBIg 10%).

ESB Energy's international activities include the development and construction of thermal power plants and wind farms on behalf of internal and external clients, engineering and facility management services and strategic consultancy services, both in Ireland and internationally.

6.4 ESB Energy Solutions

ESB Energy Solutions (ESBES) consists primarily of two energy supply businesses, the regulated ESB Customer Supply (ESBCS) business and the unregulated supply business, ESB Independent Energy (ESBIe).These businesses have recently been licensed to operate on a non ring-fenced basis and will operate under a new brand – Electric Ireland. ESBCS supplies the domestic and small commercial market in Ireland, and with the entry of two significant new suppliers into the Irish retail electricity supply market in 2009, its customer numbers fell from approximately 2.1 million at 31 December 2008 to approximately 1.7 million at 31 December 2009. In 2009, ESBCS had a SEM market share of 34%.

ESBIe is the group's unregulated electricity supply business, and its primary focus is on selling electricity to the industrial and large commercial sectors. Its customers are predominantly high load factor. It had a SEM market share of 15% in 2009. ESBIe has recently commenced operating in the retail gas supply market and has acquired two medium-sized customers on 12-month contracts.

6.5 ESB's Other Business Activities

ESB Group's other activities include Novus Modus Limited, a €200 million investment fund established by the group to provide capital, support and knowledge to companies, projects and management teams in the clean energy and energy efficiency sectors, and ESB 1927 Properties Limited, a subsidiary whose business is to manage and develop the group's real property assets, such as the ESB Head Office complex in Dublin. The group has also commenced a pilot project aimed at the installation and operation of electric vehicle charging infrastructure in Ireland.

6.6 Financial Overview of the ESB Group

ESB's financial performance in recent years is summarised in Table 6.1.

Table 6.1: ESB Financial Summary

	2009	2008	2007	2006	2005	2004	2003	2002
	€m	€m	€m	€m	€m	€m	€m	€m
Revenue	3,015	3,488	3,461	3,087	2,756	2,457	2,341	2,150
EBITDA	814	753	927	730	664	511	622	481
Operating profit (before disposals)	350	340	523	336	300	224	326	237
PBIT (before exceptionals)	412	403	570	356	331	255	354	250
Profit before tax	600	304	480	264	240	183	302	197
Earnings	580	273	432	222	241	157	249	159
Earnings (before disposals)	315	273	432	222	241	157	249	159
Property, plant and equipment	7,628	6,978	6,385	6,000	5,564	5,501	4,725	3,779
Capital employed	8,445	6,958	6,956	6,352	5,884	5,962	5,046	4,143
Shareholder's funds	4,032	3,226	3,364	2,735	2,534	2,463	2,298	2,120
Net debt/(cash)	2,231	2,088	1,796	1,960	1,846	2,298	1,603	902

Over the past seven years, ESB has been in expansionary mode. Its fixed asset base has doubled since 2002 to €7.6 billion. The ratio of capex to depreciation has ranged between 2.0 times (2009) and 4.3 times (2003). Much of this growth in its asset base has been financed by retained earnings. ESB has paid out just 30% of earnings in dividends in recent years, well below the average for the European electricity sector.[5] That said, ESB does not have the same facility to issue new equity to finance growth. Net debt increased from €0.9 billion to €2.2 billion between 2002 and 2009. The acquisition of NIE in late 2010 added net debt of a further €1.4 billion.

Return on investment has been relatively modest in recent years. Return on capital employed (before joint ventures and exceptional transaction gains) has averaged 5.4% over the past seven years and dipped to 4.6% in 2009. Operating profit and EBITDA for 2009 in Table 6.1 above are calculated before asset disposal gains.

[5] ESB also paid a special dividend of €185 million in 2009, relating to its gain of €265 million on the sale of generation assets to Endesa.

Table 6.2: ESB Financial Ratios

	2009	2008	2007	2006	2005	2004	2003	2002
EBITDA margin %	27.0	21.6	26.8	23.6	24.1	20.8	26.6	22.4
Operating margin %	11.6	9.7	15.1	10.9	10.9	9.1	13.9	11.0
Revenue/Average capital employed (excl.J.V.'s)	0.39	0.51	0.52	0.51	0.47	0.46	0.53	
Revenue/Average fixed assets	0.41	0.52	0.56	0.53	0.50	0.48	0.55	
Average ROCE (excl) JV'S & disposal gains) %	4.6	5.0	7.9	5.5	5.2	4.2	7.4	
Average ROE (after tax) excl gain on disposal %	8.7	8.3	14.2	8.4	9.7	6.6	11.3	
EBITDA interest cover (x)	9.4	7.5	10.6	8.1	6.3	4.6	10.7	12.8
Group interest cover (x)	4.7	4.0	6.5	4.0	3.2	2.3	6.1	6.7
Debt/EBITDA (x)	2.7	2.8	1.9	2.7	2.8	4.5	2.6	1.9
Debt/Equity %	55	65	53	72	73	93	70	43
Dividend/Earnings (previous year) %	30	30	30	30	49	27	12	

6.7 Recent Operating Performance

2009 saw a sharp decline in ESB's activity, with revenues down 13.6% to €3.015 billion (back to 2006 levels). This was caused by a number of factors, including a 5.5% contraction in Irish electricity demand and increased competition in the generating and supply businesses. Competition in the supply (retail) business was particularly intense following the entry of Airtricity and BGÉ. This decline in activity, combined with continuing high levels of capital spending, led to a sharp fall in ESB's turnover of assets: the ratio of revenue to average fixed assets fell to 0.41 times in 2009 from 0.52 times in 2008 and 0.56 times in 2007.

This deterioration in trading conditions during 2009 was masked at the pre-tax profit and earnings levels by a number of once-off gains. ESB realised a profit of €265 million on the sale of oil-fired generating assets (just over 1,000MW of capacity) during the year to Endesa for €440 million. Pre-tax profits also benefited from a once-off gain of €69 million from the acquisition of the outstanding 30% interest in the Synergen joint venture, the assets of which were acquired below book value.

These once-off items helped pre-tax profits increase from €304 million to €600 million. Pre-tax profits before these once-off gains totalled €266 million, compared with €304 million in 2008 and €480 million in 2007. During 2009, ESB undertook price adjustments costing €400 million to stabilise and reduce the price of electricity to all users, of which €300 million had already been provided for in 2008 and so had no impact on 2009 profits. This €400 million in market support absorbed almost all of ESB's windfall gains relating to free emission allowances received in recent years (€133 million in 2009, €212 million in 2008 and €77 million in 2007).

Approximately 20% of adjusted after-tax profits in 2009, excluding the gain on disposal to Endesa, were attributable to ESB's share of profits from joint ventures. These joint-venture profits included a contribution from Synergen, which is now a wholly owned subsidiary, and a once-off gain relating to the Marchwood Power joint-venture. Accordingly, future joint-venture profits are expected to be substantially lower – in the region of €15 million. Despite the disposal of significant generating assets, net debt increased by €143 million to €2.23 billion in 2009. A contributing factor to this increase was the payment of the special dividend of €185 million and disposal-related customer rebates of €87 million. Spending on fixed assets was down slightly from €952 million to €872 million, but it still represented a multiple of two times depreciation (2008: 2.4 times). Approximately two-thirds of capital expenditure in each of the past two years has been attributable to the networks business.

Debt to EBITDA ratio was 2.7 at end 2009. The average ratio for the listed European energy sector in 2009 was 3.4 times. Although it had no cash balances at the end of the year, ESB had undrawn facilities of €964 million. During 2009, ESB raised US$508 million in the private placement market. In February 2010, ESB listed a €3 billion Euro Medium Term Note (EMTN) Programme. On March 5, 2010, £275 million in 6.5% 10-year notes was raised under this programme, priced at 98.79pc.

6.8 Pay and Pensions

The pension deficit included in the 2009 year-end balance sheet of €515 million (2008: €307 million) did not show the potential extent of ESB's pension shortfall at that date as the company had availed of the option, permitted under accounting rules, to defer the unrecognised portion of the deficit over the future service lives of employees. The accounting deficit on the plan, as represented by the difference between the present value of funded obligations and the fair value of plan assets, amounted to €2.184 billion at end-2009, down from €2.566 billion in 2008. Just 49% of ESB pension obligations were backed by related pension assets at end-2008, rising to 56% at end-2009.

An accounting deficit effectively represents a wind-up basis, rather than a going-concern basis: future contributions into a scheme are not taken into account under accounting rules, for example, and would have no impact on an accounting deficit. ESB's most recent actuarial valuation in December 2008 showed a deficit of €1,957 million. However, new pension arrangements were agreed in late 2010 which are expected to substantially eliminate this actuarial deficit.

The main features of the new agreement are the curtailment of pension benefits and include the introduction of a Career Average Re-valued Earnings pension model for benefits earned from January 2012 on, pension and pay freezes (up to 2014 and 2012 respectively), the cessation of the historic link between salary and pension increases, and the application of a solvency test whereby the scheme must be financially solvent before any future pension increases can be made. The scheme has also been closed to new entrants. In addition, under the agreement, ESB will make a once-off capital injection into the scheme of approximately €0.9 billion, to be paid over a phased period including €0.6 billion to enable the scheme to lower its investment risk profile over time. Pensions represent a significant element of staff costs at ESB, as shown in Table 6.3 below. Due to differences in accounting treatment of pension expenses across state commercial companies, the Review Group has used employer pension contributions as a proxy for pension costs.

Table 6.3: ESB Employee Costs

	Average number of employees	Wages and salaries	Employer pension contributions	Average pay (wages/salary)	Employer pension cont. as % of pay	Average pay including employer pension contributions
		€000	€000	€000		€000
Dec-09	7,783	587,885	146,063	75.5	24.8%	94.3
Dec-08	7,870	598,480	99,565	76.0	16.6%	88.7
Dec-07	7,856	569,933	88,010	72.5	15.4%	83.8

In 2009, pension contributions by ESB were equivalent to just under 25% of wage and salary costs which averaged €75,500. However, those employer contributions included the impact of voluntary severance schemes. Under the scheme regulations, employer contributions are capped at 16.4%. Total pension contributions in respect of normal payroll amounted to €61.1 million in 2009, 10.4% of wages and salaries.

Box 6.1: Acquisition of Northern Ireland Electricity (NIE)

In July 2010, ESB entered into an agreement to acquire the Northern Ireland electricity networks business from Viridian at a cost of just over Stg£1 billion and assumed Eurobond debt obligations of a further Stg£175 million. NIE has approximately 1,300 staff. The deal, which was primarily financed by bank debt, was completed in December 2010. NIE had paid dividends totalling €165 million to Viridian over the two years to March 2010.

NIE's Regulated Asset Base at end March 2010 was marginally over Stg£1 billion, roughly one-fifth the value of ESB's RAB. The consideration, including debt acquired, is equivalent to 1.2 times NIE's regulated asset base at March 2010 and 7.5 times 2009/2010 EBITDA.

NIE seems unlikely to prove cash generative for ESB over the foreseeable future. Over and above the financing costs associated with the transaction, capital spending will need to be maintained at a significant level: NIE estimates that an investment in the transmission system in the order of Stg£1 billion is necessary over the next 10-15 years, if the Northern Ireland Department of Enterprise Trade and Industry's target for Northern Ireland of 40% of electricity consumption from renewable sources by 2020 is to be achieved. On a *pro-forma* basis, the acquisition of NIE increases ESB's net debt to over €3.6 billion, with the debt/equity ratio increasing from 55% to 90%, and net debt/EBITDA increasing from 2.7 times to 3.6 times.

6.9 Capital Spending Plans

ESB's long-term development plan, *Strategic Framework to 2020*, which was announced in early 2008, envisaged ESB investing a total of €22 billion over the period to 2020. This was to be equally divided between renewable and conventional energy development in Ireland and UK, and enhancement and expansion of infrastructure networks. These plans have been modified as the financial climate has changed. According to a January 2011

review from Moody's, ESB plans to deliver a €10 billion investment programme over the period to 2020. Standard & Poor's (January 2011) expects a capital programme of €6.5 million over the next five years, of which €1.2 billion is discretionary and could be cancelled or postponed, if necessary. 70% of this €6.5 billion is to be invested in networks, 10% in renewable energy and 20% in conventional power generation.

6.10 Conclusions and Recommendations

The Review Group understands that its proposals for the ESB are the most important element in this report and has consulted widely on the issues raised. The Irish electricity industry has undergone substantial changes over the last two decades and further change, in the context of European policy and market integration, is inevitable.

The risks associated with privatisation of the different segments of the electricity industry can be seen as escalating through several stages, assuming adequate prices can be obtained and that necessary regulatory structures for the new ownership model are in place. There are low or negligible risks with the sale of ESB overseas assets or of Irish power generation assets, some of which have already been sold. Greater risk attaches to the private ownership of network assets, particularly the high-voltage grid and interconnectors. Controlling risk suggests that government should stagger disposals over time, with any disposal of these network assets deferred pending regulatory developments in the emerging single European energy market. The single market is being promoted vigorously by the EU Commission. While some countries have privatised these networks, the Dutch and Swedish grid owners and operators for example remain firmly in state ownership despite most of the rest of the industry being in private hands.

The critical infrastructure in an electric power market is the transmission grid, including interconnectors to neighbouring systems. EU policy requires that the grid be operated independently. Grid operation and power market management in Ireland are undertaken by Eirgrid, which is also the system operator for Northern Ireland. It is government policy to transfer the ownership as well as the operation of the transmission system to EirGrid. The Review Group endorses this approach and believes that it helps promote greater competition, transparency and operational efficiency. Additionally, it recommends that the grid be retained in public ownership.

Recommendation 21: The Review Group recommends that the transmission grid, including the high-voltage system in Northern Ireland, be transferred to EirGrid and retained in public ownership as a regulated monopoly. The transfer prices for these assets should reflect their regulated asset valuations. The Review Group notes that unbundling is not an end in itself but a policy designed to increase competition and efficiency in the industry.

The proposal to effect this transfer has been under review and the Minister for Communications, Energy and Natural Resources commissioned a report from consultants, Frontier Economics (2011), which has recently been released. The report has disputed the financial viability of the proposed transfer amongst other matters, but its analysis and

conclusions have in turn been disputed by EirGrid and its advisers. The Review Group does not accept that a transfer of regulated assets between two state enterprises runs any material risk of financial cost to the owner of these assets, since no net disposal is involved. The Group is also satisfied that a transfer at fair value can be achieved in a financial framework which leaves EirGrid in a position to fund its balance sheet and to undertake such investment programmes as are likely to be warranted.

ESB owns approximately 216MW of hydroelectric capacity as well as the 290MW pumped-storage facility at Turlough Hill in Co. Wicklow. In addition to providing generating capacity, hydro units play a key role in providing reactive power and in assisting EirGrid in the provision of system stability. The hydro plant raises special issues for a number of reasons. The marginal cost of running hydro, which attracts no carbon costs, is often zero, particularly when spilling during floods. This is an important consideration in designing electricity markets. Maintaining water levels for recreational use and restocking fisheries add a social dimension. The Liffey scheme now operates mainly to provide water for Dublin. There are significant operational safety and flood control issues. Most importantly, hydro is the main source of fast-acting primary spinning reserve on the national power system. This is particularly true for Turlough Hill but the other plants also provide this service.

While hydro plant *can* be successfully operated under private ownership and there are many examples of where it works well, the Review Group feels that in current Irish circumstances the small hydro endowment should be retained in public ownership. In a small relatively unconnected system like ours, hydro has always been a key provider of stability services on the power system. It is difficult to design market mechanisms for so-called ‘ancillary services’ such as reactive power, and in many countries where power generation was privatised, including the United Kingdom, hydro units were retained in the ownership of the grid company, at least initially.

Turlough Hill is already treated as a regulated asset in the ownership of ESB, but not the other hydro units. All the hydro units would be outside the market under our proposal and would effectively become transmission system assets.

Recommendation 22: The Review Group recommends that all hydro units should be transferred to EirGrid and should be operated by them as regulated assets.

The power generation industry in a small market will tend to be oligopolistic, since any unit of economic size, for example a 400MW gas unit, will be the price-setter at least some of the time. Peak demand in the all-island system has recently been around 6,500MW, not much larger than the largest power station on the UK system (Drax Power Station has a capacity of 3,960MW). But the ESB remains the price setter in the Irish market far more often than any other generator, notwithstanding the 2007 disposal to Endesa of the Tarbert and Great Island generating stations together with four peaking units.

Recommendation 23: The Review Group recommends that the ESB be required to dispose of further generating capacity in Ireland, the units to be sold to be selected by the CER. This should happen regardless of any ESB ownership decision. No acquirer should be permitted to bid for capacity which would bring its Irish market presence above about 2,000MW. There should be no regulatory inhibition to generators owning supply businesses, subject to competition law.

While the low-voltage distribution system is also a natural monopoly and must be regulated, the Review Group does not feel that, in the Irish market, it would make sense to detach it from the ESB, which owns and operates distribution across the island. With the measures recommended here the ESB will transfer its transmission and hydro businesses to EirGrid and will sell further generation assets. It will then consist of the remaining Irish generation assets, interests in overseas generation assets, the regulated distribution system in both the Republic and Northern Ireland, the supply (retail) business in the Republic and its international consulting and other business units.

Recommendation 24: The Review Group recommends that the ESB's energy supply business, electricity distribution business, generation assets (after some divestment), international investment, and consulting and engineering businesses should be sold as a single entity.

In the event that government did not choose the privatisation route, the transfers we have mooted of transmission and hydro assets to EirGrid should nonetheless go ahead. These disposals, at fair value, are advisable given the balance sheet challenges for ESB. However, the rationale for retention of assets and operations outside the Irish market would be difficult to sustain given the over-leveraged position of the Irish state.

Recommendation 25: Should the ESB be retained in state ownership, the Review Group recommends that, in order to assist in deleveraging the state balance sheet, all of its overseas interests should be disposed of and that there be no further expansion outside the island of Ireland.

Section 7: EirGrid and the High-Voltage Electricity Transmission Grid

EirGrid Plc is the independent Transmission System Operator for Ireland's high-voltage electricity transmission grid and the Market Operator of the all-Ireland wholesale electricity trading system.

EirGrid is a commercial state-owned company established in 2006 under the European Communities (Internal Market in Electricity) Regulations (SI 445 of 2000), which in turn gave effect to EC Directive 96/92/EC.[6] One ordinary share of the company is held by the Minister for Communications, Energy and Natural Resources and the remainder of the issued share capital is held by the Minister for Finance or on his behalf.

The transmission grid operated by EirGrid carries high-voltage electricity from generation plants to transmission stations located country-wide where electricity is provided directly to customers or stepped down and delivered onwards via the separately-managed distribution system to domestic, commercial and industrial end-users.[7] The grid consists of a meshed network of approximately 6,600km of high voltage, 110,000 volts (110kV), 220,000 volts (220kV) and 400,000 volts (400kV), overhead lines and underground cables and over 100 transmission stations. These assets are owned by ESB Networks and managed through an infrastructure agreement between EirGrid and ESB Networks. EirGrid is responsible for, *inter alia*, planning and developing the system, scheduling and dispatching generation and operating the electricity market.

7.1 EirGrid's Activities

EirGrid's core activities are managing supply and demand on the grid and developing and managing grid infrastructure. It also has also been given responsibility for the development, construction and operation of a 500MW capacity east-west interconnector across the Irish Sea (EWIC) to Wales, which will be owned as well as operated by EirGrid and is scheduled for completion in 2012, and the operation of the all-island electricity market through a Single Electricity Market Operator (SEMO) structure that is a contractual joint-venture with SONI (Systems Operator for Northern Ireland).[8]

Funded entirely through system charges, EirGrid is overseen by the Commission for Energy Regulation (CER) and Northern Ireland Authority for Utility Regulation. It reports to the regulators as:

- EirGrid Transmission System Operator (EirGrid TSO), which derives its revenue from providing services in Ireland and is regulated by the Commission for Energy

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[6] Directive 96/92/EC required, *inter alia,* that the function of the TSO be carried out independently of electricity generation or supply. In Ireland, this required the unbundling of the TSO function from ESB to an independent operator - EirGrid Plc.

[7] The distribution system is separately managed by ESB Networks, which has the Distribution System Operator (DSO) licence from CER.

[8] The Single Electricity Market was launched on 1st November 2007.

Regulation. EirGrid remits a capped amount (determined annually by the CER) of these system charges to the Transmission Asset Owner (ESB Networks).

- Single Electricity Market Operator (SEMO), which derives its revenue acting as the Market Operator for the wholesale electricity market on the island of Ireland; and

- Northern Ireland Transmission System Operator (SONI TSO), which is licensed by the Northern Ireland Authority for Utility Regulation and derives its revenue acting as the TSO in Northern Ireland.[9] SONI also holds a Market Operator licence for the island of Ireland, having become a wholly-owned subsidiary of EirGrid Plc in March 2009.[10]

7.2 Single Electricity Market (SEM)

The SEM is a unified wholesale electricity market operating in Ireland and Northern Ireland. The market has approximately 2.5 million customers - 1.8 million in Ireland and 0.7 million in Northern Ireland. In the year to 30 September 2009, EirGrid (SEMO) oversaw the processing of energy invoicing and settlement totalling just under €2 billion in addition to processing capacity settlement totalling approximately €595 million.

7.3 National Grid Development Strategy: Grid25

In 2008, EirGrid estimated that the capacity of the bulk transmission system would require to be doubled by 2025 in order to meet forecast demand and facilitate the increase in renewable electricity generation mandated by EU and national energy policy.

In light of these requirements and the targets set by government for renewable energy, EirGrid adopted a development strategy that envisages an investment of €4 billion over a 17-year period to upgrade the transmission system. In seeking to meet forecasted national electricity demand, the Grid25 strategy targets:

- Integration of 40% renewable energy[11] with 37% of electricity to come from wind (by a considerable margin the highest wind integration target on a synchronous power system across Europe); and

- Increased interconnectivity with the European grid, thereby allowing a freer flow of exports and imports, increased competition in the market and improved security of supply.

To that end, EirGrid has progressed two interconnector projects: the €601 million East-West Interconnector, which will provide 500MW of interconnection between Ireland and the UK; and the €180 million Meath-Tyrone 400kV Interconnector, which will more than double the current power transfer capacity between the North and the South.

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[9] The Northern Irish transmission network comprises approximately 2,100 km of circuits including 400 km of 274kV double circuit lines and 1,700km of 110kV double and single circuit lines.

[10] SONI has approximately 70 staff. Its principal assets are the Control Centre at Castlereagh House in Belfast, and its associated IT infrastructure.

[11] This target was subsequently increased to 42%, which remains government policy.

Recommendation 26: The Review Group recommends that EirGrid's Grid25 targets be re-considered in the light of demand developments and our recommendations regarding reduced wind penetration.

7.4 Recent Financial Performance

EirGrid's financial period was changed in 2008 to align it with the regulatory tariff period which runs from 01 October to 30 September every year.

In the year ending 30 September 2009, EirGrid made an operating profit of €9.4 million (2008 - €8.6 million for 9 months to 30th September 2008). Revenue was €410.7 million during the period, compared to revenue of €282.7 million in the nine months to September 2008. Revenues were primarily derived from the regulated Transmission Use of System Tariff, a charge payable by all users of the high-voltage transmission system.

The increase in underlying revenue was largely due to the acquisition of SONI (the Northern Ireland transmission operator) on 11 March 2009, which contributed turnover of €47.1 million. As EirGrid's revenue is primarily derived from regulated tariffs based on use of the transmission system, this increase was partially offset by the effects of the economic slowdown experienced since 2008, which has had a negative impact on the demand for electricity.

Direct costs in 2009 were €330.7 million, consisting of the regulated charge payable to ESB and NIE (the owners of the transmission system in Ireland and Northern Ireland respectively); the cost of purchasing from generators a range of services required for the secure operation of the system; constraint costs payable when the secure operation of the system requires changes to be imposed on the market-based schedules of generators; and the costs of implementing a range of energy demand initiatives.

The year to September 2009 also saw a net cash outflow of €31.8 million, reflecting a continuing high level of investment. Capital expenditure during the year totalled €27.5 million, of which over €24 million was attributable to the East-West Interconnector project. In addition, EirGrid spent €30.5 million (net of cash acquired) on the acquisition of SONI, including goodwill of €8.2 million. EirGrid continues to have net cash balances, down from €61.8 million to €30 million at end September 2009.

Cash on hand increased significantly from €98.8 million to €153.9 million as at 30 September 2009, of which €28.1 million was cash balances held on trust for market participants. This represents a build up of cash resources required for EirGrid's investment in the East-West Interconnector project and its ongoing capital and operational investment programme. In addition, EirGrid had unutilised borrowing facilities of €86 million at end September 2009. Gross borrowings increased to €123.9 million, from €37 million in 2008.

7.5 Pay and Pensions

EirGrid Group operates two defined benefit plans for its 305 staff: the EirGrid Plan and the SONI Focus Plan. All EirGrid employees are members of the EirGrid Plan. The SONI defined benefit plan has 33 members and has been closed to new entrants since 1997. It was a condition of the acquisition of SONI Limited by EirGrid in March 2009 that a new defined benefit scheme would be established to provide continuity of benefits for those SONI employees who had been members of the Viridian Group defined benefit scheme. All other SONI employees are members of a defined contribution scheme: the SONI Options Plan. The two defined benefit plans had an aggregate accounting deficit of €22.3 million at September 2009. Based on an actuarial valuation at 30 September 2009 the EirGrid plan was solvent on a minimum funding basis and qualified for a funding certificate. However the accounting deficit is significant when considered against the scheme liabilities and the scheme assets. The deficit is largely associated with the transfer of staff from ESB when EirGrid was formed in 2006. The deficit is being cleared over the remaining service lives of the relevant employees. Employer contributions in the year to September 2009 totalled €4.1 million, equivalent to 16% of salary costs. Discussions on the recovery of these costs from regulated tariffs are currently in progress with the CER.

7.6 Capital Spending Plans

Pending completion of the UK interconnector and transfer of transmission assets from ESB, EirGrid has comparatively little in terms of fixed assets on its balance sheet. Fixed assets at end-September 2009 totalled just €110 million, of which €32 million related to the East-West Interconnector. This project will be owned as well as operated by EirGrid and has been allocated €110 million grant funding under the EU's European Energy Programme for Recovery. Long-term debt funding of 50% (€300 million) has been received from the European Investment Bank, with a further €160 million to come from commercial banks. The remaining funding is being provided by EirGrid in the form of an equity contribution of €31 million.

7.7 Conclusion

Our recommendations concerning the future structure of EirGrid are contained elsewhere in the report. Briefly, it should become a regulated strategic networks business and should continue to be owned by the state in current circumstances. Network assets have been successfully privatised, as regulated businesses, in many countries but we feel that consideration of options in this regard should be deferred for the time being.

Section 8: Bord Gáis Éireann and Gas Industry Structure

The primary activities of Bord Gáis Éireann (BGÉ) and its subsidiaries are the development, ownership and operation of gas networks and the supply of gas in Ireland and Northern Ireland. In recent years, it has also become involved in the electricity market.

8.1 Corporate Structure, Governance and Operations

BGÉ was established as a statutory corporation under the Gas Act 1976 and it operates under the Gas Acts 1976 to 2009. It is majority-owned by the state through the Minister for Finance (86.73%) and the Minister for Communications, Energy and Natural Resources (10%), with the balance (3.27%) held by an Employee Share Ownership Trust.

The BGÉ Group consists of two main businesses, Bord Gáis Networks and Bord Gáis Energy (which are supported by a corporate function), and an independent subsidiary Gaslink Independent System Operator Limited (Gaslink)**,** which is responsible for the operation, maintenance and development of the transmission and distribution gas networks in Ireland. BGÉ also has a subsidiary distribution and supply operation called Firmus, which operates in Northern Ireland.

Bord Gáis Networks (BGÉ Networks) manages the Irish transmission and distribution pipeline network under its arrangements with Gaslink. It also operates the BGÉ-owned gas pipelines in Northern Ireland and manages the construction of transmission and distribution pipelines in Ireland (under its arrangements with Gaslink) and transmission pipelines in Northern Ireland.

As at 31 December 2009, the BGÉ's gas pipeline network comprised approximately 2,368km of high-pressure transmission pipelines and approximately 10,782km of low-pressure distribution pipelines. Included in the transmission network are two under-sea interconnector pipelines which connect the Irish gas transmission network to the UK network. BGÉ is also examining the feasibility of developing a gas storage facility.

Bord Gáis Energy (BGÉ Energy) is a dual fuel, all-island business serving approximately 950,000 gas and electricity customers. It is the retail arm of BGÉ, selling gas and electricity to all market segments and undertaking related activities, including trading, call centre management, billing and sales and marketing.

Gaslink is the Independent System Operator (ISO) for Ireland's gas network under the unbundling requirements of European Union Gas Directive 2003/55/EC. BGÉ Networks provides key services to Gaslink pursuant to an operating agreement approved by the regulator, the Commission for Energy Regulation (CER). The BGÉ parent company continues to own the network assets directly, while BGÉ Networks is responsible for the financial performance of these assets.

Firmus is BGÉ's subsidiary operation in Northern Ireland. Firmus Energy (Distribution) Limited and Firmus Energy (Supply) Limited (together, Firmus) hold distribution and supply licences for ten towns along the two pipelines in Northern Ireland and sell gas in the competitive Greater Belfast market.

8.2 Gas Retail Activities

The Irish gas market was opened fully to competition in July 2007, which means that alternative suppliers can compete in all market sectors, including the residential sector. The CER continues to regulate BGÉ's tariffs for all customers other than those who consume more than nine million therms a year (mainly the power generation sector and very large industrial customers).

There are three main regulated tariff categories: domestic and small/medium enterprises (SME), Regulated Tariff Formula (RTF) and the Fuel Variation Tariff (FVT). The RTF is a regulated market segment for customers with consumption of between 5.5GWh and 264GWh per annum. The FVT is a regulated market segment for customers with consumption of between 0.00375GWh and 5.5GWh per annum.

In 2009, BGÉ sold 42.9% of the gas used in the Irish gas market overall (38% in 2008), amounting to approximately 93% of the domestic and SME market, approximately 39.8% of the RTF sector and approximately 71.8% of the FVT sector.

8.3 Electricity Retail Activities

BGÉ Energy entered the electricity supply market in 2001, and by end-2009 it had a 12% market share (having increased by 50% during 2009). Firmus was awarded a licence to supply electricity throughout Northern Ireland in late 2008 and has been steadily building market share.

BGÉ Energy sources electricity for the electricity retail division through the Single Electricity Market (SEM) pool, which is the wholesale electricity market operating on an all-island basis. To reduce its price exposure to the pool, BGÉ Energy also enters into hedge contracts with conventional electricity generators, wind operators and the UK bilateral market via the Moyle Interconnector.

8.4 Financial Overview of BGÉ Group

Since 2002, BGÉ's revenues have grown by 107%, from €652 million to €1.35 billion in 2009. All but 5% of BGÉ's revenues are generated in Ireland, with the remainder coming from the UK, including Northern Ireland and the Isle of Man. The company's financial performance in recent years is summarised in Table 8.1 below.

Table 8.1: BGÉ Financial Summary

	2009	2008	2007	2006	2005	2004	2003	2002
	€m	€m	€m	€m	€m	€m	€m	€m
Networks revenue	187	165	169	157	110	105	90	83
Energy & ancillary revenue	1,162	1,214	1,046	950	746	650	611	569
Total revenue	1,349	1,379	1,215	1,107	856	755	701	652
EBITDA	320	299	305	258	243	254	223	189
Operating profit	201	211	217	170	165	173	150	137
Profit before tax	119	151	166	99	108	119	103	113
Earnings	104	130	142	84	91	99	97	98
Property, plant & equipment	3,543	2,814	2,669	2,592	2,396	2,223	2,129	2,013
Equity capital & reserves	1,402	1,301	1,260	1,134	1,029	957	898	811
Net debt	1,811	1,203	1,106	1,174	1,079	1,010	1,043	1,026
Capital employed	3,590	2,879	2,710	2,652	2,416	2,232	2,138	2,024

Book value of property, plant and equipment at the end of 2009 was €3.5 billion, €2.5 billion of which was attributable to gas pipeline systems, €400 million to electricity generating assets and €500 million to projects under construction (mainly electricity generating assets). The company's Regulated Asset Base (RAB) is approximately €3 billion, €500 million in excess of the book value of its pipeline assets. The main drivers of cash performance over the eight years to December 2009 are shown in Table 8.2 below:

Table 8.2: BGÉ Cash Flow Summary 2002-2009 (€m)

EBITDA	2,092
Net Capex	-2,242
	-150
Other investments	-594
Working Capital	84
Interest Costs	-388
Tax	-8
Dividends paid	-136
Share issues	22
Other	-91
Total cash outflow	-1,261

BGÉ has invested €2.8 billion over the past eight years, €1.5 billion from internal cash flow and €1.3 billion from additional borrowings. Dividend payments over the period have amounted to €136 million, averaging 15% of prior year earnings, although the payout ratio was upped to 30% during 2009.

Return on capital (before exceptional items and income from joint ventures) over the past seven years has averaged 7.0%, but dropped to 5.6% in 2009. The lower returns generated in 2009 are due in large part to the timing of BGÉ's heavy investment in power generation, most of which took place too late in the year to make a meaningful contribution to profits. BGÉ also had significant capital tied up in its 445MW CCGT plant at Whitegate. This €400 million project did not come on stream until 2010.

Table 8.3 - BGÉ Financial Ratios

	2009	2008	2007	2006	2005	2004	2003	2002
Operating margin %	14.9	15.3	17.9	15.4	19.3	23.0	21.3	21.1
EBITDA margin %	23.7	21.7	25.1	23.3	28.4	33.7	31.8	29.0
Revenue/Average capital employed (excl .JV's)	0.42	0.49	0.45	0.44	0.37	0.35	0.34	
Revenue/Average fixed assets	0.42	0.50	0.46	0.44	0.37	0.35	0.34	
Average ROCE (excl JV'S & exceptionals) %	5.6	7.0	8.1	5.5	6.5	7.6	7.2	
Average ROE (after tax) %	7.7	10.2	11.8	7.7	9.1	10.7	11.3	
EBITDA interest cover (x)	4.2	5.6	5.7	5.3	5.4	5.9	5.0	6.0
Group interest cover (x)	2.4	3..7	4.1	2.9	3.4	3.8	3.3	4.0
Debt/EBITDA (x)	5.7	4.0	3.6	4.5	4.4	4.0	4.7	5.4
Debt/Equity %	129.2	92.5	87.6	103.3	104.7	105.4	115.9	126.3
Gross capex./Depreciation (%)	239.5	343.1	220.0	280.5	294.5	231.4	230.1	1,128.9
Dividend/Earnings (previous year) %	30	20	10	10	10	10	10	

8.5 Recent Operating and Financial Performance

Sales fell 2% in 2009 to €1.35 billion (2008: €1.38 billion). Sales of energy (gas and electricity) were down 4% to €1.16 billion, as increased electricity sales were offset by falling gas demand and reduced gas prices. 2009 saw a 5% decline in total gas transported by BGÉ, with gas demand in the Irish market down 4% from 58,000GWh to 56,400GWh.

Operating profits, before exceptionals, declined by just under 5% from €210.8 million to €200.9 million, with operating margins falling to 14.5%, compared with 15.3% in 2009 and 17.9% in 2007. The 2009 operating profit figure is before charging a €19 million exceptional restructuring provision, while in 2008 there was a €15 million exceptional charge in respect of share-based payments.

The vast bulk of BGÉ's profit relates to its networks business. In 2008 and 2009, 93% and 97%, respectively, of profits before interest and tax (PBIT) originated from the company's regulated transportation and gas supply activities. Bord Gáis' Networks business, overall, contributed PBIT of €186.7 million in 2009, with the other divisions each making small losses. Tangible fixed assets of the energy division increased sharply in 2009, from €303 million to €964 million, mainly reflecting the substantial investment in power generation.

Net interest costs climbed sharply from €45.7 million to €61.1 million, driven by heavy levels of investment. In addition, BGÉ capitalised interest costs of €15.3 million (2008: €7.2 million). The sizeable increase in borrowing costs put additional pressure on pre-tax profits, which fell by 21% to €118.8 million. After-tax earnings were down 20% on the

year to €104.2 million. Average return on equity fell to 7.7%, compared with 10.2% in 2008 and 11.8% in 2007.

During 2009, BGÉ invested €866 million on capital projects, including acquisitions. All but €100 million or so of this total was directed towards building up its electricity generation infrastructure. BGÉ spent €598 million (including deferred consideration of €33 million) on the acquisition of a number of wind farm developments together with €18 million for a 50% interest in a peaking plant joint venture. The €598 million spend on wind farms included net debt acquired of €261 million. Stripping this out, BGÉ paid €337 million for the net assets of the wind farm businesses, a multiple of 3.8 times net assets (€88 million).

Its largest acquisition by far was in December 2009, when the Cork-based SWS Natural Resources was acquired for approximately €500 million, including debt acquired of €245 million. This brought BGÉ's wind generation capacity to 218MW by the end of 2009, representing a little over 17% of Ireland's operational wind capacity at that date. These wind generation assets are included in the 2009 accounts at €426 million, or just under €2 million per MW. SWS also brought to BGÉ a development pipeline, which, on completion, would add further wind generation capacity of 460MW on the island of Ireland. At the end of 2009, BGÉ had wind development projects with a total capacity of 565MW, valued in the books at €109 million.

BGÉ financed its recent spending through a number of fundraising initiatives. In March 2009, it raised US$450 million on the US Private Placement market. Then in June 2009, it issued a five-year €550 million Euro Corporate Bond at a fixed coupon of 5.75%. In the first half of 2010, it also secured funding of €197 million from the EIB in respect of the Whitegate project. The average coupon on the company's fixed debt in 2009 was 4.6% (2008: 4.0%). In addition to undrawn facilities of €489 million, BGÉ had cash balances of €546 million at end 2009 against gross borrowings of €2.35 billion.

The heavy level of investment in 2009 led to a €600 million increase in net debt, from €1.2 billion to €1.8 billion. Reflecting this, financial ratios weakened in 2009, with net debt to EBITDA up from 4.0 times to 5.7 times. Net debt at end 2009 represented 61% of the company's RAB, compared with about 40% in 2008. The government approved an increase in the company's statutory borrowing limit from €1.7 billion to €3 billion in February 2009.

8.6 Pay and Pensions

BGÉ operates externally funded defined benefit schemes. The accounting deficit on funded plans totalled €23 million in 2009 (2008: €38 million). Fund assets at end 2009 represented 90% of obligations (2008: 82%). The company also made a contribution of €126,000 in 2009 under a defined contribution scheme in respect of a Northern Ireland subsidiary.

Table 8.4: BGÉ Defined Benefit Pension Obligations & Assets

	2009 €m	2008 €m	2007 €m	2006 €m	2005 €m	2004 €m	2003 €m	2002 €m
Present value of funded pension obligations	242	221	235	233	236	184	167	153
Fair value of plan assets	219	183	238	228	201	166	149	131
Deficit (surplus) for funded plan	23	38	-3	5	35	18	18	22
Plan assets as a percentage of obligations	90%	82%	101%	98%	85%	90%	88%	86%

Because of different accounting treatment of pension costs among state commercial companies, we have used employer contributions as a proxy for pension costs in our analysis of employee remuneration in Table 8.5 below.

Table 8.5: BGÉ Employee Remuneration (excluding share-based payments)

	Average number of employees	Wages and salaries	Employer pension contr.	Average pay (wages/ salary)	Employer pension contr. as % of pay	Average pay including employer pension contributions
BGÉ (exclusive of share based payments)		€000	€000	€000		€000
Dec-09	1,006	67,700	10,011	67.3	14.8%	77.2
Dec-08	911	61,380	8,703	67.4	14.2%	76.9
Dec-07	854	55,088	8,052	64.5	14.6%	73.9

Over the past three years, employer pension contributions have averaged a little over 14% of wage and salary costs. Average employee remuneration at BGÉ in 2009 was €67,300, rising to €77,200 after taking employer contributions into account.

8.7 Capital Spending Plans

Reflecting its ongoing heavy investment in generating capacity, electricity is becoming an increasingly significant element in BGÉ's business, and should account for approximately 30% of capital employed within the next year. The 445MW combined cycle gas turbine (CCGT) generating plant developed by BGÉ at Whitegate, near Cork went into commercial operation during 2010. In a joint-venture with Mountside Properties, it is also preparing four separate sites for the development of four 100MW fast response open cycle gas turbines. This rapid expansion by BGÉ into electricity generation and supply increases BGÉ's risk profile, insofar as these businesses are considerably more competitive than the company's regulated gas business.

According to Standard & Poor's, capital spending at BGÉ in the three years to 2012 will total over €800 million, broadly in line with its capital expenditure, excluding acquisitions, over the three years to 2009. BGÉ moved in May 2010 to announce a €2 billion Euro Medium Term Note Programme and is expected to tap debt markets under this programme in the not too distant future.

8.8 Recommendations for BGÉ

BGÉ's high-pressure gas transmission network and the interconnectors are regulated monopolies and constitute strategic networks. While such networks have been successfully privatised in many countries, the Review Group feels that consideration of this option is not opportune at this stage.

Recommendation 27: The Review Group recommends that BGÉ's regulated transmission and interconnector assets should be retained in state ownership. Consideration should be given to the establishment of a distinct state body to own and operate these assets and also to the option of merging these operations into EirGrid.

The remainder of BGÉ's businesses, including its electricity generation and supply and its gas supply operations, already compete with private operators. Its gas distribution business need not be retained by the state although it should continue to be regulated and ring-fenced.

Recommendation 28: The Review Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, should be privatised as a single entity.

Section 9: Seaports and Port Industry Structure

The seaport sector handles over 95% of Ireland's external trade by volume and is almost exclusively in state ownership - save for a few small private port facilities. The focus of the Review Group's analysis is on the state-owned port companies - Drogheda, Dublin, Dundalk, Dun Laoghaire, Cork, Galway, New Ross, Rosslare, Shannon Foynes, Waterford and Wicklow, which between them account for almost all port activity in the state. The port trade is an all-Ireland business of its nature, and the Republic's ports compete with one another but also face competition from the Northern Ireland ports, especially Belfast, Larne and Warrenpoint.

9.1 Corporate Structure, Governance and Operations

Ten of the port companies in Ireland (known collectively as the state port companies, and excluding Rosslare) are owned by means of shares held in the name of the Minister for Transport and the Minister for Finance. The Minister for Transport holds all but one share. Rosslare is part of the CIE Group.

Rosslare aside, the other state ports have operated as commercial companies since 1996, following the introduction of the Harbours Act, 1996. There is no regulation of the sector, with each company competing for trade on the basis of price, geographical location, operational efficiency and capacity.

Dublin is the biggest of the state's ports. Cork, Shannon Foynes and Rosslare are also sizeable operations while the others serve local or niche markets (Galway specialises in fuel importation, Waterford is an important gateway for the importation of grain and fertilizers for the agricultural sectors) or provide overflow capacity as necessary to the larger ports. Dun Laoghaire has traditionally had a substantial roll-on/roll-off and passenger business but its recently renegotiated agreement with the Stena Company will see revenues significantly reduced.

9.2 Port Sector Activity and Income Streams

There are two different operating models among the port companies. Most operate as landlord ports, allowing private operators to manage and direct activities, while some of the smaller ports operate the activities directly. With the landlord port model, the company provides and maintains key fixed infrastructure, such as access roads, quay walls, docking facilities, and the operators provide superstructure such as handling equipment, cranes etc. and deliver the services. For example, there are five roll-on/roll off operators working within Dublin Port (previously six, DFDS exited the market in January 2011) while there are also three terminals providing stevedoring facilities to 15 different lo/lo shipping companies. These companies compete with each other on a day to day basis for business and market share.

Aside from the core activity of loading goods and vehicles on and off ships, the port companies are also engaged, to varying degrees, in other activities associated with their substantial land holdings.[12]This includes rents, car parking facilities and fees from leisure

[12] Shannon Foynes is the only port company that derives all of its income from port related activities.

sailing activities. For some of the smaller ports, these non-core activities have become much more important in the context of the sizeable drop-off in core trading. For example, in 2009 almost half of Galway Port's revenue was from rents and car parking charges, and Drogheda's port operations only accounted for 35% of total revenue in the year (Table 9.1).

Table 9.1: Revenue Streams as Percentage of Total Revenue

Port Company	Port Operations	Rents/Carparking	Other
Cork	100	Not Disclosed	Not Disclosed
Drogheda	35	20	45
Dublin	80	17	3
Dundalk	64	0	36
Dun Laoghaire	100	Not Disclosed	Not Disclosed
Galway	53	47	0
New Ross	76	16	8
Shannon Foynes	100	0	0
Waterford	92	8	0
Wicklow	64	31	5

The sector as a whole has faced very difficult trading conditions in the last number of years, since the peak of 2007/2008. This is particularly the case with some of the smaller port companies that were dependent on some niche import markets associated with the construction sector. These ports are vulnerable to one of their small number of customers redirecting trade elsewhere or ceasing to trade.[13]

9.3 Operational and Financial Performance

The aggregate turnover of the state port companies in 2009 was €121 million, down 14% from the previous year. Dublin Port accounted for slightly more than 50% of this total, with Cork accounting for 16%, Dun Laoghaire 8% and Shannon Foynes 8%. The average operating profit margin in the sector was just over 25% in 2009, down from 30% in the previous year. Again, this average is skewed by Dublin Port, which had an operating profit margin of 41% and indeed Shannon Foynes, which had a margin of 21%. Overall, Dublin Port accounted for 85% of operating profits generated in the sector in 2009, and whereas Dublin and Shannon Foynes operating profits have held up well in the last number of years, with both beating their 2007 figure in 2009, all of the others have suffered significant falls in operating profit.

[13] The ability of the larger ports (e.g. Dublin and Cork) to draw trade from the small ports has been enhanced by the improvements to the national road network.

Table 9.2: Aggregate Port Data 2009 & 2008

	2009 Sales	2008 Sales	% change	2009 Operating Profit	2008 Operating Profit	% change
	€000	€000		€000	€000	
Dublin	62852	70597	-11%	25647	26969	-5%
Cork	20822	26296	-21%	1508	5145	-71%
Shannon Foynes	9497	10877	-13%	1956	2095	-7%
Drogheda	2015	2463	-18%	246	353	-30%
Waterford	8851	12235	-28%	-517	4309	-112%
Wicklow	200	232	-14%	-85	-75	13%
Dun Laoghaire	10721	10975	-2%	1350	2938	-54%
Galway	3980	4347	-8%	521	961	-46%
Dundalk	1028	1232	-17%	-363	-276	32%
New Ross	1070	1338	-20%	65	289	-78%
Total	121036	140592	-14%	30328	42708	-29%
Operating profit margin				25.1%	30.4%	

Box 9.1 - Dublin Port

Following a period of rapid growth between 1996 and 2007, volume at Dublin Port fell by 4.4% in 2008, from 30.9 million tonnes to 29.6 million tonnes, and by a further 10.4% in 2009 to 26.5 million tonnes. The decline ended during 2010 and volumes have begun to recover. Port dues declined by 1.8% in 2008 and by 13.2% in 2009. With income from rents proving resilient, total revenues at Dublin Port fell by just 11% over the two years on a volume decline of 14%. As the cost base over the period fell at an even faster rate than revenue, operating profits over the past two years actually improved. Operating costs fell by almost 24% from their peak of €48.7 million in 2007, to €43.6 million in 2008 and €37.2 million in 2009. Employee costs have fallen by a little over 10% over the same period from €15.0 million to €13.4 million, and now account for 36.1% of operating costs compared with 30.8% in 2007.

While operating profits in 2009, at €25.6 million, were down 5% on the previous year, they were still 18% up on 2007 levels. Operating margins have improved from 30.8% in 2007 to 38.2% in 2008 and 40.8% in 2009. However, as the balance sheet has continued to grow, return on average capital employed slipped to 9.2% in 2009, from 10.3% in 2008. Return on average equity in 2009 was 6.3%, down from 10.7% in 2008. These returns are far in excess of those of any other Irish port. Return on equity for the other Irish ports in 2009 averaged -3.0%, down from +5.5% in 2008.

9.4 Outlook

Prior to the recent economic downturn, the main concern in the ports sector was the timely provision of additional capacity to address medium term constraints. This fed a series of reports and consultations about the investment plans of the various port companies, including the proposed provision of a new port at Bremore, North County Dublin. Capacity is no longer an urgent matter given the existing spare capacity in the sector and the reduced growth projections for the Irish economy. Although several of the key shipping segments are expected to show a return to growth in 2010 indicating some volume return, these volume gains are not evenly distributed around the ports. Several of the smaller ports will still find overall volume recovery more difficult in the medium term which will add further pressure to operating and profit margins.

Irrespective of the level of economic growth in Ireland over the medium term, the port sector will have to respond – where it can – to the rapidly increasing size of ships in the shipping industry which is driving demand for deeper navigational access to ports, longer quays and higher capacity cargo handling equipment.

The Review Group considers that the major issue for the sector now is to ensure that it is structured in a way that maximises efficiency and leads to optimal investment decisions. The Review Group believes that the current structure of the sector is sub-optimal. The general financial performance and average return on capital delivered during the years of unprecedented economic growth have been disappointing, particularly for the smaller ports.

The Review Group considers it evident that there are too many ports for the trade available, but we are not in a position to decide what the right number might be. However, it is clear that some of the smaller ports are marginal even in a favourable trading environment and the sector would benefit from a rationalisation of ownership/management structures. The corporate structures in place, including separate boards, management, auditors and investment plans, are difficult to justify for companies which in some cases have annual turnover of €1 million or less.

9.5 Pay and Pensions

The number of people employed directly by the port companies, as distinct from the number of people working in the ports sector overall, is quite small. In 2009, a total of 460 people were employed by the ten port companies (excluding Rosslare), with 157 of these employed by Dublin Port, 111 by Cork Port and 46 by Shannon Foynes. The smallest employer was Wicklow Port, with just 3 employees. Almost all of the port companies have reduced their numbers employed in recent years, with Dublin leading the way with an almost 25 % reduction in staff since 2006. Galway has the highest average cost per employee (€91,340 in 2009). The average among all of the companies is €65,880, with six of the ten ports above this level.

The pension position of the companies, each of which has legacy defined benefit schemes reflecting public sector norms, is mostly difficult. By virtue of its windfall gain from its share of the proceeds from the sale of the Irish Glass Bottle site in 2007, Dublin Port was able to inject substantial cash (€52 million) into its pension schemes in that year. Its main defined benefit scheme has been closed to new members since 2005. The 2009 accounts

show a pension deficit of just over €1 million, with over 99% of pension liabilities ring-fenced. The main scheme has a mature profile, with just 127 active members compared with 426 pensioners.

Similarly, faced with schemes with very mature profiles (more pensioners than contributors) most other ports have pension funding plans in place to address the deficits over time, in accordance with Pension Board requirements, but their poor trading returns and cash flows are making this very difficult. Some of the port companies had attempted to divest some non-core assets, mostly surplus property holdings, to address their pension deficits, but they were unable to complete the transactions before the downturn and it is now proving almost impossible to divest at all, even at much reduced prices. While there is still a market for going concerns and indeed properties that are generating income, there is very little interest in development lands/properties, which is primarily what the port companies have on their books.

The total current level of pension liabilities in the port sector at the end of 2009 is estimated at a little under €32 million, with related pension assets at €27 million.

9.6 Divestment Opportunities

Clearly any one of the port companies could, in principle at least, be disposed of. Port companies in many countries around the world operate successfully as private entities.

However, some of the port companies would be very difficult to sell as going concerns, their value residing in their land banks and/or development potential as civic amenities rather than in commercial operations. Dublin, Cork and Shannon Foynes clearly possess commercial value, as does Rosslare.

9.7 Conclusions and Recommendations

A programme of rationalisation of the Irish port sector needs to be devised and implemented. This should involve merging each of the smaller ports with one of the larger ports and discontinuation of port activities at some. Multi-port companies are common in the industry in other countries.

Recommendation 29: The Review Group recommends that the state-owned ports, including Rosslare, should be restructured into several competing multi-port companies, built around Dublin, Cork and Shannon Foynes. The Competition Authority should be consulted concerning the amalgamation process.

Dublin, Cork, Shannon Foynes and Rosslare are big enough to be disposed of separately but ideally, this should follow sector rationalisation.

Recommendation 30: The Review Group recommends that privatisation of some or all of the ports should be considered, ideally after the recommended restructuring. The adequacy of competition in the sector on an all-Ireland basis should be reviewed prior to privatisation and suitable regulatory arrangements instituted if deemed necessary.

Section 10: Bord na Móna

Established as the Turf Development Board in 1935 to exploit Ireland's peat resources for energy production, Bord na Móna (BNM) became a public limited company in 1999. Whilst best known for harvesting peat for use as fuel and for planting products, the company today has a much more diverse range of activities.

10.1 Corporate Structure, Governance and Operations

BNM is a public limited company owned 95% by the Minister for Finance with the remaining 5% belonging to the staff through an Employee Share Ownership Plan (ESOP). It operates under various Turf Development Acts and the Companies Acts 1963 to 2005. Given the nature of its business BNM must also operate in accordance with an extensive range of environmental legislation. The state's shares are held in the name of the Minister for Finance, with Board appointments made by the Minister for Communications, Marine and Natural Resources, with the consent of the Minister for Finance.

The Company operates five major business areas, involved in fuel distribution, energy generation, water treatment, horticulture and waste collection and disposal, respectively. With a group turnover of €384 million in 2010, BNM is a significant operation, employing more than 2,000 people primarily based in Ireland (in 70 locations), but also in the UK and the USA.

10.2 Activity and Income Streams

As mentioned above, BNM operates in a range of markets through five subsidiary companies, each of which contributes a varying level of revenue and profitability.

BNM Fuel is involved in the manufacture, importation and distribution of fuels for the industrial and domestic heating market. It manufactures and distributes peat briquettes to the residential heating market, imports and distributes bituminous and smokeless coal and distributes oil products to domestic and commercial customers. It is consistently the largest revenue-generating subsidiary in the BNM Group.

BNM Energy is involved in power generation and also in the production and supply of biomass and peat feedstock, which are the raw materials that are used in power generation, horticulture products and briquette production. This division is the largest contributor to group profits and consistently delivers the second largest component of the group's annual revenue stream.

AES (Resource Recovery) is the waste management company BNM acquired in 2007 for €52.1 million, including debt acquired, and it has become the umbrella for BNM's resource recovery business. AES's core business is in domestic and commercial waste collection and disposal. It provides domestic bin collection services in Leinster (mostly outside of Dublin), Roscommon, Tipperary and Limerick; and it provides a commercial waste collection service in all counties in Leinster, north Munster, Connaught and in the Ulster border counties of Cavan and Monaghan.

BNM Horticulture provides products for the gardening sector, both for commercial growers and domestic customers. The product range is peat-based composts and potting soils, although increasingly it is moving towards the production and supply of peat-free products in keeping with developments in EU environmental directives and regulations. The company is a market-leading supplier to the retail sector in the UK and Ireland.

BNM Environmental provides solutions in the areas of wastewater treatment and air pollution abatement systems. In addition, the business provides laboratory and technical services, catering for domestic, industrial and municipal clients in Ireland, the UK, Continental Europe and the USA.

The contribution of BNM's different subsidiaries to total revenue is shown in Table 10.1 below.

Table 10.1: Bord na Móna Revenue Streams

	2010	2009	2008	2007	2006	2005	2004	2003
	€m	€m	€m	€m	€m	€m	€m	€m
BNM Fuels	141	157	127	124	130	110	103	107
BNM Energy	126	122	112	84	83	59	69	66
AES Resource Recovery	50	52	42					
BNM Horticulture	49	48	56	53	51	54	49	45
BNM Environment	18	24	34	38	32	35	32	28
Total Revenue	384	402	371	299	296	258	253	246

10.3 Financial Background

Bord na Móna's total revenue has grown from €246 million in 2002/2003 to €402 million in 2008/2009, with a 4% decline in revenues from €410 million to €384 million in 2009/2010. During this period, its capital employed more than doubled from €179 million to €364 million. Operating profit did not increase commensurately, although it has proved relatively resilient in the year to March 2010 at €23 million, down from €23.7 million in the previous year.

From 2006/2007 onwards, BNM significantly upped its investment activity, spending in the order of €250 million on acquisitions and new plant and equipment. This increased level of investment over the past four years has coincided with a material downturn in profitability. Pre-tax profits peaked at €34 million in 2005/2006 and have shown a decline in each of the past four years. The company reported a one-third fall in pre-tax profits (from €19.5 million to €12.9 million) in 2009/10.

While operating profits over the past four years have been relatively stable at about €23 million, interest costs have risen sharply, this reflects two fundraisings in recent years, a substantial portion of which has yet to be spent. Net finance costs more than doubled in 2009/2010, from €4.3 million to €10.1 million which contributed to a one-third deterioration in return on average equity (from 7.4% to 5%). Bord na Móna paid its first

dividend ever to the state in 2007 - €3.8 million - and has continued to pay a dividend each year since. It paid €5.3 million in 2009/2010, equivalent to 33% of previous year earnings.

10.4 Recent Financial Performance and Outlook

Recent divisional performance has been mixed. BNM Energy, which has been the fastest growing subsidiary in recent years, experienced an increase in sales in 2009/10 (up 4.0% to €126.3 million). Sales of the BNM Fuels business, however, were down (-10.2% to €140.7 million), as were AES Resource Recovery (-3.1% to €50.3 million) and BNM Environmental (-25.5% to €14.6 million). BNM Horticulture sales showed a partial recovery (+3.5%) to €49.2 million following a 15.2% decline in the previous year.

Although BNM's financial ratios have weakened in recent years, both gearing and interest coverage ratios at end-March 2010 remained sound. For instance, EBITDA interest cover in 2009/2010 was 8.1 times (2008/2009: 14.6 times), while the Debt to EBITDA ratio was 0.9 times. BNM has healthy cash balances of over €200 million arising from two separate private debt placements in the United States in recent years. Just €60 million of this debt is repayable within the next five years, with the balance of a little over €200 million payable over the four years to 2018/2019.

The core revenue and profitability of BNM still derives from its fuel and energy operations, but both of these are mature cash-generative businesses that face significant issues over coming years as carbon emissions are reined back. In the medium term, therefore, the company plans to reduce its dependence on these legacy operations and diversify into complementary, faster-growing areas such as renewable power generation and waste management. Indeed, in October 2008 BNM announced an enhanced business plan that would see it double in size by 2013 and become Ireland's leading renewable energy provider.

This change of direction is behind its recent high investment and acquisition activity levels, which have expanded BNM outside of its traditional business areas and contributed significantly to recent revenue growth. The company's largest acquisitions to date have been Edenderry Power, a 128MW peat-fired power station bought for €79.5 million in December 2006, and the Leinster-based waste management business AES, bought for €52.1 million, including debt acquired, in May 2007.

A key element of BNM's strategy is the development of a sizeable wind energy business (approximately 500MW) centred mainly on its Oweninny, County Mayo site. The first phase of the Oweninny project is being executed as a joint-venture with ESB. The company plans to invest heavily in its AES business over the coming years.

Box 10.1 - The Future of Peat-Powered Generating Stations

The original justification for peat extraction for power generation was to reduce Ireland's dependence on imported fossil fuels. Currently, the peat generation stations benefit from a range of public policy supports. These policies require priority dispatch of the peat plants and their use is supported by a Public Service Obligation (PSO) Order which requires the ESB to purchase electricity generated by peat-fired stations under fixed-price PSO contracts. The PSO Order provides for the recoupment by ESB of the additional costs incurred by comparison with the wholesale market price in the SEM through a PSO levy payable by all consumers. The level of the PSO levy is set annually by the Commission for Energy Regulation and can be zero in any given year.

The current Power Purchase Agreement (PPA) with the ESB for BNM's Edenderry peat plant, which is supported by the PSO levy where necessary, runs out in 2015. PSO levy support for the ESB's Shannonbridge and Lanesboro plants ends in 2019. The delivered price of peat is effectively the same to all three PSO-supported peat plants, and is derived from a fixed base price agreed in the mid-1990s which varies annually according to a basket of indices which include labour, materials and energy price components. In the absence of an extension of the PSO agreement after these dates, the viability of peat-generated electricity will depend on the world market price of competing fuels, the cost of acquiring carbon emission permits, and the extent of co-firing with biomass.

BNM has recently commenced co-firing with biomass at Edenderry in line with Government policy outlined in the White Paper on Energy (2007). In 2010 biomass use reached approximately 13% of fuel use and the target is to reach 30% in 2015. The two ESB plants have similar targets but due to technical difficulties are unlikely to reach them. Biomass includes sawmill residues, pulpwood and forest residues, energy crops and dry materials. The use of biomass is subsidised through REFIT support prices announced in May 2010 of €95/MWh for electricity produced from energy crops and €85/MWh for electricity produced from other types of biomass.

BNM has recently completed a survey of peat reserves which has clarified the availability of peat resources over the coming years. The company has indicated that it does not intend to open any new bogs. It is probable that the technical lifetime for the existing bogs is around 20 years at current rates of extraction. Their economic lifetime depends on the future value of milled peat as an energy source, which is currently underwritten by the PSO levy. The Edenderry plant, which has a remaining operational life of at least 20 years, is more efficient than the two ESB peat plants. Currently with the PSO levy in place it is producing electricity at less than the current wholesale price. Thus it could be economically viable even in the absence of the levy, although it might not run on a year-round basis. The viability of the ESB plants appears more doubtful once the PSO levy comes to an end. The EPA's (2010) projections for greenhouse gas emissions for 2020 project a sharp decline in peat consumption by 94% compared to 2008 following the termination of the Public Service Obligation (PSO) supports for peat-burning power stations.

10.5 Pay and Pensions

Average employee costs, excluding pension and PRSI, amounted to €44,800 in 2009/2010 (Table 10.2). This compares with €46,400 in 2008/2009. In addition there was a share-based payment of €6.1 million to the company's Employee Share Ownership Plan (ESOP) in 2008/2009. This covered the cost of acquiring a 5% equity stake, in return for the "agreed business transformation achieved over recent years." As shareholders' funds at the

end of the year in March 2009 had amounted to €234 million, the ESOP acquired these new shares at a sizeable discount to net book value, reflecting the minority shareholding.

Table 10.2: Bord na Móna Pay and Pensions (excluding share-based payments)

	Average number of employees	Wages and salaries	Employer pension contributions	Average pay (wages/salary)	Employer pension cont. as % of pay	Average pay including employer pension contributions
		€000	€000	€000		€000
March-10	2,136	95,733	4,523	44.8	4.7%	46.9
March-09	2,064	95,849	6,687	46.4	7.0%	49.7
March-08	2,035	91,300	6,030	44.9	6.6%	47.8

Employer pension contributions as a percentage of wages and salaries are relatively modest, at 4.7% in 2009/10 and 7% in 2008/2009. An improvement in investment performance in 2009/10 helped to narrow the deficit in the pension fund from €51.3 million to €22.3 million - 91% of the company's pension obligations were ring-fenced at year-end, up from 78% the previous year.[14] This is a reasonably healthy position compared to some other state companies. The company has two defined benefit schemes - the Regular Works Employee Superannuation Scheme (RWESS) and the General Employee Superannuation Scheme (GESS) - and a defined contribution pension scheme has been introduced for new employees. With regard to the largest of the defined benefit schemes, the RWESS, the company and staff recently reached an agreement under which members will contribute an additional 1.5% of pensionable salary and the company will match it. In relation to GESS discussions are continuing with member representatives and the regulatory authorities on the issues involved.

10.6 Divestment Opportunities

Bord na Móna has a diversified portfolio of business interests, some underwritten by government supports (underpinning its peat extraction business and its wind generation plans) while some of its newer business activities operate in volatile and uncertain markets. The company believes it will need capital to invest in growing these new businesses. BNM is operating in business markets where there are many private competitors, and indeed, in many cases it entered these markets by buying the assets of private companies that had created these in the first place.

10.7 Conclusions and Recommendation

The Review Group recommends that the government should seek to dispose of BNM as a single entity, with a peat extraction business based on the right to exploit the remaining peat on the existing opened bogs and not the land itself. While it would be possible to sell off the subsidiaries as individual companies, the Review Group considers that there is some added value from the business synergies developed and planned by BNM that makes it worth more as an entity. In any event, any new owner would be best positioned to decide

[14] Included in total pension obligations is an unfunded scheme for senior management.

what fits and what does not. A new owner would have the same incentive to continue to extract peat as does BNM at present, depending on the availability of state supports and carbon penalties. The same level of extraction activity would continue in the Midlands as would occur if the state retained ownership of the company.

We favour retaining the ownership of BNM's peat lands in the hands of a state agency. As BNM's peat lands are currently owned and managed both at group level and by the subsidiary companies, this option would require extensive preparation to transfer land titles into a single successor state entity. The privatised company would inherit the licence conditions imposed on the extraction of peat by the Environmental Protection Agency under IPPC licences, including the preparation and implementation of a detailed rehabilitation plan following termination of peat production. Once the peat extraction licence (including rehabilitation) terminated, management of the rehabilitated peat land would be the responsibility of the new state-owned land management company. If a decision were made to dispose of Coillte's forest estate through long-term lease, as proposed by the Review Group in Section 11, then consideration should be given to merging the residual land management functions of Coillte with the residual land management functions of Bord na Móna in a single new state agency. This agency would receive commercial income from its licence revenue in the early years, but would be required to develop new commercial uses for its land bank in future years.

We are conscious that peat extraction has a finite life and that the transactions costs of preparing the company for sale have to be set off against the potential value that a sale would realise. The value that a potential purchaser would put on the remaining peat would depend, in part, on government policy decisions (including, for example, whether the current Public Service Obligation be continued). It would also depend on the licence terms agreed for the extraction of peat between the new state land management company and the newly-privatised operations. The higher the licence rent sought by the land management company, the less would be the value of the licence to a potential purchaser. It would be important to establish as much certainty as possible in terms of future government policy for the use of peat as energy before the option of privatising BNM was embarked upon. We reiterate our view in Recommendation 1 that what is important is securing long-term economic competitiveness rather than simply maximising the immediate value of asset disposal.

Recommendation 31: The Review Group recommends that the government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.

Section 11: Coillte Teoranta

Coillte was established under the Forestry Act 1988 to manage the state forests on a commercial basis. Prior to Coillte's establishment, the state forests were managed by the Forest Service, which was at that time within the Department of Energy. The Forest Service, which is today within the Department of Agriculture, Fisheries and Food, remains the authority responsible for ensuring the development of forestry on a sustainable basis in Ireland. Coillte has developed into a diversified commercial enterprise and now has significant market positions in panel products, telecoms infrastructure, renewable energy (wind and biomass) as well as forestry.

11.1 Activity and Income Streams

The Coillte Group has three business areas: Coillte Forest, Coillte Panel Products and Coillte Enterprise. Coillte Forest carries out the traditional functions associated with forest management and harvesting. Coillte Panel Products is a division established following the acquisition of two wood product production facilities in 2002 and 2006. Coillte Enterprise is the new business arm of the group.

Table 11.1: Coillte Revenue Streams

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
Forest Revenue	62,735	77,508	96,366	87,381	-	-	-	-
Enterprise Revenue	27,511	27,647	31,822	47,173	-	-	-	-
Panel Products Revenue	116,619	144,320	189,940	79,235	-	-	-	-
Total Revenue	206,865	249,475	318,128	213,789	215,673	184,965	172,121	144,135

Box 11.1 - National Forest Policy Context

The Government's strategic plan for forestry *Growing for the Future* was launched in 1996 and set a planting target of 25,000 hectares in the first four years and 20,000 hectares a year thereafter until 2035. This land use change would see forestry covering 17% of the country. However, despite huge taxpayer-funded incentives for private planting in recent years and a state-owned forestry company, afforestation has fallen from over 20,000 ha in 1996 to around half that level in recent years (most recent figures from the Forest Service indicate that Ireland is currently planting 8,300 ha annually) compared with a target level of 15,000 ha annually assumed in the National Climate Change Strategy 2007-2012 (DoEHLG, 2007).

By 2009, the national forest estate stood at 737,000 ha, roughly equally divided between private ownership (46%) and State ownership, and representing about 11% of Ireland's total geographical area. The Renewed Programme for Government in 2009 reiterated the commitment to the 1996 target of 17% forestry cover and proposed a target for new forest planting of 10,000 hectares per annum, a rate in keeping with its complementary commitment to developing the national forests as a carbon sink, as set out in the National Climate Change Strategy. The Programme for a National Government 2011-2016 committed to an annual 14,700 hectare afforestation programme. Three review groups have been set up by the Department of Agriculture, Fisheries and Food to examine national forestry policy, the funding of forestry schemes and the future of Coillte in this context. The reports are expected to be published shortly.

While forestry policy was initially about producing timber, in recent years there has been a growing emphasis on the non-wood benefits or 'public good' forestry, including the role of forests in recreation, managing biodiversity, flood control and carbon sequestration. Currently, over 15% of Coillte's forest estate is actively managed for nature conservation. Forests provide the largest outdoor area for recreational use in the country. Coillte Forest owns and manages 10 forest parks, 150 other dedicated recreation facilities and approximately 2,000 km of off-road trails. Other areas with high levels of usage outside their forest parks include areas such as South Dublin/Wicklow, Slieve Bloom Mountains (Laois/Offaly) and Ballyhoura Mountains (Cork/Kerry).

11.2 Financial Background

Coillte's group revenues more than doubled between 2002 and 2007, from €144 million to €318 million, with a sizeable portion of this increase coming on foot of the acquisition of SmartPly and Medite. In the last two years, there has been a precipitous drop in sales, reflecting the company's overall exposure to the construction sector in Ireland and the UK, where the difficult trading environment has resulted in a sharp fall in the price of logs and panel products.

A noteworthy feature of Coillte accounts is the company's reliance on property trading. In the eight-year period under review to end-2009, Coillte reported aggregate pre-tax profits of €204 million, with profits on land sales accounting for 70% of this amount and profits on sales of immature forests a further 17%. Profits from forestry and its downstream operations (including log sales and CPP) – traditionally the core operations of the company - accounted for just 13% of profits over the period.

Table 11.2: Heavy Dependence on Profits from Sale of Land and Immature Forests

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
Pretax profit excl. gains on fixed assets/immature forests	(33,762)	(9,375)	29,635	343	(5,548)	24,546	15,124	5,274
Profit on sale of fixed assets	15,906	10,839	16,772	26,914	31,863	13,171	12,700	14,420
Exceptional profit on sale of immature forest	25,372	10,141						
Pretax profit incl. gains on fixed assets/immature forests	7,516	11,605	46,407	27,257	26,315	37,717	27,824	19,694

Since it was established, Coillte has acquired 52,000 hectares of land, most of which predated the end of premia support. Coillte has sold 12,000 hectares, over half of which was sold to various state agencies or for public benefit projects. The vast bulk of the disposed land was either un-plantable or poor quality and low yielding. In 2009, it reported gains on asset sales of €15.9 million, up from €10.8 million in the previous year: these gains are treated as normal profits from (property) trading.

These exceptional gains were partly offset in 2009 by restructuring costs of €5.2 million and impairment losses of €3.1 million related to forestry assets. In the previous year, Coillte incurred exceptional restructuring costs of €700,000 and an impairment charge of €8.7 million related to SmartPly Europe.

According to Coillte, forestry in Ireland and other temperate climates typically provides an internal rate of return of between 3% and 7% in real terms. Coillte's returns have been well below these levels in recent years. Since 2002, Coillte's average pre-tax return on capital employed (including profits from the sale of land and immature forests) has been under 2.5%. Without the contribution from the sale of these property assets, its average pre-tax return on capital would be 0.4%.

11.3 Recent Financial Performance and Outlook

The financial results for 2009 show that, despite the exceptional gains on immature forests and a reduction in capital spending to its lowest levels in eight years (€40.6 million), Coillte experienced a net cash outflow for the second year in a row, with net debt increasing by €16.2 million to €177.4 million. Coillte's results in 2010 have improved significantly (unaudited profits were in excess of €30m and debt levels were reduced to €150 million) primarily due to a strong recovery in log prices. Coillte's panel business has also seen an improvement in UK and European markets during 2010, and the company is confident that the medium-term demand for its products is strong and will be further strengthened by environmental policy developments at EU level in the area of energy conservation and renewable resources. This is especially the case for Coillte Panel Products, the financial performance of which has been turned round during 2010 on the basis of higher sales prices, new customers and lower costs. These plants, according to Coillte, require further investment of about €80 million.

For Coillte Forest, there are business challenges ahead. The division has experienced a sharp fall in the volume of forest planting in recent years and has effectively withdrawn from planting, reflecting the company's view that it does not make commercial sense to afforest land in the absence of state grant support and where land costs more than €4,000 per ha. Its commercial challenges are exacerbated by the fact that its forest estate is very fragmented, consisting of up to 6,500 separate properties, of which about half are considered commercial, one quarter potentially commercial with investment, and one quarter have no commercial value because of their poor location, poor quality of the trees or the lack of roads. The significant protection and support given to the main alternative land use, agriculture, results in a very high price of land and further undermines the commerciality of forests.

Table 11.3: Downward Trend in Forest Planting

	2005	2006	2007	2008	2009
Afforestation of Coillte land (ha)	569	231	181	189	92
Farm partnership (ha)	500	98	62	30	51
Restocking (ha)	7,582	6,694	6,996	6,006	4,452
Planting for farmers (ha)	1,855	1,404	896	567	877

Source: Coillte Website

This less than positive outlook could be turned around by future developments in the area of carbon sequestration, which has the potential to give the forest estate a commercial value as a carbon storage (or sink) asset. However, there remains great uncertainty as to what way policy in this area will go.

Coillte Enterprise is likely to continue to focus heavily on its interests as a developer of wind farm sites on its own land and a provider of sites to other developers. In July 2010, 20% of total wind generation capacity (1,380MW) was on sites that originated with Coillte. Through this division, the company intends to be the principal provider of sites to the private wind farm sector in the period to 2020 and estimates that it will realise value in the range of €100 million to €200 million from its wind farm sites over the period 2012 to 2025. Coillte is also developing a telecoms business focused on providing infrastructure for wireless communications (mobile telephony, broadband and radio) in rural areas. Any slowdown in wind-power investment would constrain revenues from providing sites.

11.4 Dividends

Despite generating profits of over €142 million from fixed asset sales over the past eight years, Coillte has paid a dividend just once over the period: it paid out €2.6 million in 2008 in relation to 2007 earnings.

11.5 Pay and Pensions

The Group operates defined benefit schemes in Coillte and Medite Europe, although both have recently been closed to new entrants, who are offered a new defined contribution

scheme. SmartPly contributes to a defined contribution scheme on behalf of certain of its employees.

Coillte's two defined benefit schemes are the No. 1 Fund (which covers pension liabilities for Coillte employees since vesting day in 1989) and the No. 2 Fund (which covers pension liabilities prior to 1989). With assets of €103 million at end 2008, the pre-vesting day liabilities covered by the No. 2 Fund remain the responsibility of the Minister for Finance. Total pension assets of the Coillte Group in 2009 amounted to €161 million, representing just 69% of total pension liabilities. The Group's pension deficit fell from €82.6 million to €72.4 million during 2009, helped by the injection of €20.7 million in employer contributions. Coillte is implementing a funding plan agreed with the Pensions Board to address the deficit in the No. 1 Fund.

11.6 Divestment Opportunities

The future of Coillte and possible disposal options were last considered in a Merrill Lynch/AIB Capital Markets report in 2000. This report advised against a sale or stock market flotation at the time, believing that further cost reductions needed to take place and that the likely value to the state would be well below book value. A decade later, there are a number of options open in considering the future of Coillte:

- Sale of Coillte as a going concern, including the land estate;
- Sale of Coillte as a going concern, but with a licence or lease to manage and harvest the timber on the forest estate while retaining state ownership of the land;
- Continuation as a state-owned forest company but with divestment of non-core activities;
- Continuation as a state-owned company with a diversification strategy.

With each of the last three there is the further option of an accelerated programme of disposing of unforested land that is surplus to Coillte's needs.

A number of countries have turned to privatisation of their forest assets, including New Zealand, South Africa, and the State of Victoria in Australia (see Appendix 2 for a more extended discussion). The experience abroad suggests that the sale of forestry assets is feasible but it highlights issues that need to be addressed, including the maintenance of the multiple benefits of forestry including recreational access. Where disposal has occurred, the preference has been to sell the timber rights but to retain ownership of the land in the hands of the state.

Coillte is in the process of transforming itself into a business focused on innovative and sustainable use of natural resources, of which forestry is just one component. The further the company moves away from its forestry heritage, the weaker is the case for retaining it in state ownership given that the state is not in a position to invest risk capital. For example, the company is currently seeking substantial financing for an investment in its SmartPlay board plant.

If forestry is considered solely as the production of timber, there is no obvious rationale for state ownership. We do not expect milk production to be undertaken on state dairy farms, or grain production on state arable farms. There are no natural monopoly issues which

would warrant state ownership. Moreover, there is evidence that there is a strong appetite for forestry investment from pension and other financial funds, and there are also forest companies who invest in forest real estate. Given that Coillte is unlikely to pay a dividend for the foreseeable future, and given the state's financial position, there is an urgent need to explore ways to realise for the taxpayer the value invested in forestry over many decades.

Public recreational access needs to be assured. Regulation can take the form of legislation governing forest management, as well as covenants inserted into forest leases. For example, all Irish forests, whether public or private, are required to abide by the Irish National Forest Standard which implements the principles of sustainable forest management and is enforced by the Forest Service. Before trees can be felled a felling licence is needed and the Forest Service will continue to issue these licences. Planning consent is required for change of use from forestry to other activities such as golf courses. Forest owners must also comply with a range of environmental legislation which applies regardless whether the forests are publicly or privately owned.

We recommend below that the carbon sequestration undertaken by forests should be remunerated. We also believe there is a case that the cost of providing recreational amenities in forests necessary to realise access (e.g. car parking, sign-posting, mountain trails) should be borne by general government expenditure.

11.7 Recommendations

The Review Group recommends that the government should proceed to dispose of Coillte as a going concern, but with the proviso that Coillte would be sold with long-term leases to the use of forest land with ownership of the land remaining with the state. The option of selling the harvesting rights but retaining ownership was employed in New Zealand and Australia in the 1990s. The New Zealand Crown Forestry Licence may provide a possible model which could be modified to Irish conditions. We view the retention of land ownership and the use of leases rather than outright sale as an appropriate instrument to ensure the continuation of the multiple benefits of forestry. Were this recommendation to be accepted, then the state agency set up to manage the ownership of Coillte's forest land might also be considered as the appropriate agency to manage the ownership of bogs retained following a possible privatisation of Bord na Móna (see Section 10).

While we do not recommend in principle the sale of forest land, Coillte possesses a substantial land area which is not forested and which may never be forested. Coillte should be encouraged to accelerate its disposal of that part of its land bank which is surplus to its immediate commercial requirements in its own business, as recommended by the Report of the Special Group on Public Service Numbers and Expenditure Programmes, with the proceeds being remitted to the Exchequer by way of special dividend.

Another option would be to keep Coillte as a forest company but to dispose of its non-core activities, particularly the two board mills. There is no obvious rationale for state involvement in the business of operating panel board manufacturing facilities. This option could include the sale of Coillte's telecommunications business, which involves the lease of sites for telecommunications masts and more recently the construction by Coillte of its own masts and the lease of antenna space to telecommunications companies.

Recommendation 32: The Group recommends that the state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.

Concerns over Coillte's market power in the sale of logs can be addressed by suitable provisions in sale agreements. The issue of public amenity and access can be dealt with in the license conditions. We believe that this option best realises the return to the taxpayer from the state's investment in forestry over decades, while protecting the legitimate concerns for recreational access to state-owned forest land, biodiversity and environmental sustainability.

Irrespective of the ownership decision, Coillte is now managing a static forest estate in which the only planting is reforestation of cut-down areas. The requirement to re-afforest is a long standing one and applies to all recipients of grant aid for forestry and not only Coillte. We consider this restriction to be unjustified and counter-productive. There will be fears that removing this requirement might lead to a reduction in the forest area. But forests are a means to an end, not an end in themselves. Provided that forests can be fully compensated for the multiple benefits they provide, there is no case to intervene further in the forestry market, particularly when national resources are so limited. Indeed, the replanting requirement may have the perverse result of reducing rather than increasing the forest area. Survey results indicate that farmers' apprehension that once land is planted to forestry it can never be taken out of forestry is one of the strongest disincentives to farm afforestation. Removing this requirement would lead to a significant improvement in the incentives for new planting, and thus the prospects of meeting government targets, without requiring any increase in exchequer expenditure.

Recommendation 33: The Review Group recommends that the replanting obligation attached to Coillte and grant-aided forestry should be discontinued.

On the subject of sequestration discussed earlier, the Review Group notes that the Renewed Programme for Government (October 2009) committed to working with the Irish forestry sector, including Coillte, to develop a scheme through which some of the monies currently set aside to purchase carbon credits abroad would be diverted for forestry investment in Ireland. The outline proposal was for the taxpayer to fund carbon offsets, using funds which would otherwise be used to purchase carbon credits over the period 2013-2020. Given the pre-existing level of public support for private forestry, the Group does not favour adding further to this support by adding a carbon sequestration payment. However, there would be merit in restructuring these incentives to explicitly recognise the carbon sequestration value. In the case of publicly-owned and -funded forestry, any proposal to introduce a carbon offset scheme for forestry should be confined to new planting after 2013.

Recommendation 34: The Review Group recommends that, in order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts to reward forest owners for the value of carbon sequestered by new forests after 2013. For farmers in receipt of the current range of financial incentives, we recommend that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.

Section 12: State Airports and Aer Lingus

The state wholly owns Dublin, Cork and Shannon airports (each functioning within the Dublin Airport Authority Group) and just over 25% of the listed former state airline Aer Lingus. The operations of Dublin Airport Authority (DAA) at Dublin Airport are regulated by a single-sector statutory regulator, the Commission for Aviation Regulation (CAR).

In addition to the three state airports at Cork, Shannon and Dublin, a further six regional airports offer scheduled passenger service, and these are all recipients of direct or indirect state financial support, which the state-owned airports do not receive.

12.1 The Airports Business on the Island of Ireland

There are 12 airports in total on the island of Ireland that offer scheduled passenger services, as well as some private aerodromes and military facilities. These twelve include two airports in Belfast and one each in Dublin, Cork and Shannon which could be regarded as full-scale commercial airports, as well as seven others classified as regional airports. These are at Derry, Donegal (Carrickfin), Sligo, Knock, Galway, Kerry and Waterford. Only two of these, Knock and Kerry, have runways able to accommodate the standard jet aircraft, such as the Boeing 737, commonly used in short-haul commercial service.

Both of the Belfast airports are owned by private companies, as are the six regional airports in the Republic, while Derry airport is owned by the local authority. Both Derry and the six regional airports in the Republic have been the recipients of public subvention from the Irish government in various forms, including capital grants, subsidised flights and in some cases operating subvention. These airports have been operating passenger service for varying periods dating back to the 1980s and 1990s, but they have always struggled to achieve stand-alone financial viability.

12.2 Corporate Structure, Governance and Operations - DAA

Formerly known as Aer Rianta, the renamed state-owned airport management company DAA operates all three of the main airports in the state. It is a public limited company operating under the Companies Acts (1963 to 2005), the Air Navigation and Transport Acts (1936 to 1998) and the State Airports Act (2004). It is also subject to regulation for activities at Dublin Airport (but not at Cork or Shannon) under the Aviation Regulation Act 2001, which provides for the capping of passenger and service charges at Dublin. The Minister for Finance is the sole shareholder on behalf of the state.

The present group structure arises from the State Airports Act, 2004 which provides the statutory basis for the ultimate separation of the three airports, subject to Ministerial decision. Pending separation, DAA has entered into a management agreement with Cork Airport Authority (CAA) and Shannon Airport Authority (SAA) respectively for the performance of certain of its functions in relation to Cork and Shannon airports. The assets, liabilities and employees in Cork and Shannon remain in the ownership/employment of the DAA, and all major strategic decisions are a matter for the “parent” board of the DAA.

In 2009, the Group employed an average of over 3,100 staff across all of its business units, which include airport development, operations and management; international airport investment; and domestic and international airport retail management. Turnover in 2009 amounted to €547 million, of which €421 million related to the company's three Irish airports, which handle 95% of the Republic of Ireland's international air traffic.

12.3 Activity and Income Streams

The business activity of the DAA, like most airports, can be divided into aeronautical and non-aeronautical services, essentially flight-related business and non-flight related business such as car parking and retail. The principal activities of the DAA are the ownership and operation of Dublin, Cork and Shannon airports. DAA also undertakes international airport management, consultancy and retail activities via its wholly-owned subsidiary Aer Rianta International (ARI). ARI has direct and indirect interests in airport retailing in Europe, the Middle East, Egypt, Russia, Ukraine, Canada, the US and Barbados, and direct and indirect equity investments in Düsseldorf, Larnaca and Paphos airports. DAA also has stakes in a number of property-related joint ventures.

Aeronautical services provided by the DAA at the three airports include provision and maintenance of airport infrastructure (airfields, terminals, piers, roads) and provision of security and fire services. It is not responsible for air navigation (which is the role of the Irish Aviation Authority), ground handling services (airlines or privately owned specialist providers) and customs (Revenue Commissioners), and it does not derive any direct income from these.

The income the DAA derives from aeronautical services relates to landing fees, passenger fees, aircraft parking fees and airbridge hire, the charges for which at Dublin are capped by the regulator (the Commission for Aviation Regulation). Its non-aeronautical income is from car parks, terminal retail services, some joint venture undertakings in the vicinity of the airport and investments held in other airports overseas. The other main source of income is from ARI. Revenues derived from non-aeronautical activities – a combination of Irish and overseas-based revenue streams – is significantly greater than revenue derived from core, regulated airport services.

Table 12.1: DAA Revenue Trends 2002 - 2009

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
Irish aeronautical revenue	188,175	213,425	204,088	171,815	137,203	130,989	108,813	107,165
Irish commercial activities (excl hotels)	232,470	282,642	302,887	293,998	271,463	234,921	237,557	224,327
Irish hotels	---	---	---	35,336	43,584	44,949	44,178	42,699
Total Irish revenue	420,645	496,067	506,975	501,149	452,250	410,859	390,548	374,191
Overseas	126,071	134,873	116,389	89,437	72,732	54,829	46,320	46,683
Total revenue	**546,716**	**630,940**	**623,364**	**590,586**	**524,982**	**465,688**	**436,868**	**420,874**

12.4 Financial Background

The financial performance of DAA Group has weakened significantly in recent years, due principally to the sharp decline in air traffic volumes and the rapid expansion in the company's balance sheet. This latter event reflects investments in airport infrastructure, especially at Dublin, which were planned prior to the recent traffic downturn to cater for an ever-growing customer base. The company has been pursuing cost reductions. During 2009, it provided €46.5 million in respect of a cost recovery programme which was budgeted to generate annual payroll savings and efficiencies of €38 million. The programme involved changes in work practices, pay reductions and a reduction in employee numbers of 300 and the budgeted savings were realised.

The main drivers of DAA's cash performance over the eight years to December 2009 are shown in Table 12.2 below:

Table 12.2: Cash Flow Summary 2002-2009

	€m
EBITDA	939
Net Capex	-1574
	-635
Other investments	-11
Disposal of businesses	568
Working capital	37
Dividends from associates	75
Interest costs (net)	-163
Tax	-71
Restructuring costs	-38
Dividends paid	-33
Other	-24
Total cash (outflow)/inflow	-295

The striking feature of this cash flow table is the large imbalance between EBITDA and net capital expenditure, with capital expenditure exceeding EBITDA by around €635 million over the eight-year period. In the same period, aggregate capital expenditure averaged 3.8 times aggregate depreciation (€414 million), a huge expansion of the balance sheet over a relatively short timeframe. Much of the gap between gross cash flows and capital expenditure was plugged by the sale of some sizeable non-core assets. During 2006, DAA sold its hotel interests for €264 million, net of disposal costs, realising an exceptional gain of €149 million. The following year it sold its associate stake in Birmingham Airport for a net €304 million, realising a gain of €238 million. These were very timely disposals and delivered market peak prices for the company. No dividend was paid by DAA in relation to these gains, leaving the full proceeds available for capital projects.

Chart 12.1: Financial and Operational Performance 2003-09

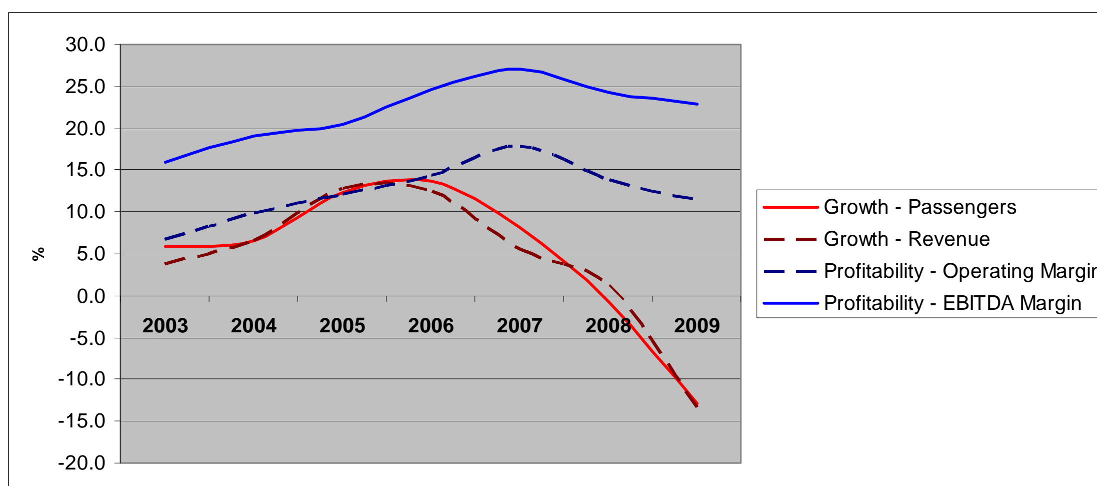

Table 12.3: Financial and Operational Performance 2003-09

	2003	2004	2005	2006	2007	2008	2009
Passenger numbers (m)	20	22	24	28	30	30	26
Growth Passenger numbers (%)	5.8	6.6	12.4	13.7	8.1	-0.6	-12.8
Total revenue %	3.8	6.6	12.7	12.5	5.6	1.2	-13.3
Profitability Operating margin %	6.8	9.9	12.2	14.4	17.9	13.9	11.5
EBITDA margin %	16.0	19.3	21.1	24.6	27.3	24.5	23.0

Most of DAA's capital spending was incurred in 2007-2009, during which DAA invested a total of €1.12 billion. Much of this investment related to Terminal 2 (T2) at Dublin, on which construction started in 2007. Capital spending in 2010 remained heavy, with spending of €228 million.

12.5 Recent Financial Performance and Outlook

As mentioned above, DAA's recent capital spending was driven to a large extent by sharply higher passenger volumes - between 2002 and 2007 passenger numbers at all three terminals increased by over 50% from 19.3 million to 30.1 million. Numbers at Dublin Airport increased from 15.1 million to 23.2 million over the same period resulting in heavy congestion at peak periods. However, passenger traffic began to tail off shortly after work on T2, which is designed to cater for 12 to 15 million passengers annually, got under way. In the three years since 2007, total passenger numbers across all three airports have fallen by almost 25% to 22.6 million, with numbers at Dublin Airport declining by almost 21% to 18.4 million. With the addition of a second terminal, Dublin Airport now has the capacity to cater for some 35 million passengers annually.

A decline of 12.8% in passenger numbers in 2009 contributed to the downturn in DAA's Irish revenues of 15.2%, following a decline of 2.2% in the previous year. This is reflected in a particularly sharp decline in activity levels, with the ratio of sales to capital employed and sales to fixed assets down by almost 50% since 2007.

Table 12.4: Activity Levels

	2009	2008	2007	2006	2005	2004	2003
Sales/Average capital employed	0.34	0.51	0.63	0.58	0.52	0.48	0.45
Sales/Average fixed assets	0.35	0.54	0.69	0.74	0.68	0.64	0.62

Reflecting all this, EBITDA in 2009 was down 19% and operating profits down 28%. Average pre-tax return on capital was just 3.9%, down from 7.0% in 2008 and 11.3% in 2007. After net exceptional charges of €51 million, mainly relating to an employee restructuring provision, DAA made an after-tax loss of €13 million for the year, compared with a profit of €47 million in the previous year.

DAA's financial ratios showed a marked deterioration in 2009, with debt/EBITDA increasing from 1.2 times to 4.9 times and debt/equity increasing from 18% to 62%. Net debt at DAA increased from €188 million to just under €616 million in 2009, mainly reflecting high levels of capital spending, up from €349 million to €522 million.

With traffic down again in 2010 and capital expenditure, at €228 million, continuing well above depreciation, DAA's financial position deteriorated further in 2010. Net debt at end-2010 was €765 million and should top-out in 2011 at close to five times peak EBITDA (2007: €170 million).

DAA's main priority over the next few years will be to reduce borrowing levels. Although its cash balances have declined from €638 million to €477 million in 2010, DAA looks to have adequate financial resources to see it through the next few years. Besides its cash holdings, DAA had €560 million of undrawn committed facilities at end-2009. It will need to repay the maturing €250 million of its €850 million Eurobond debt during 2011, with the balance falling due in 2018. In addition to its Eurobond debt, DAA has loans of just over €400 million from the European Investment Bank. All DAA's loans are fixed, with a weighted average cost of 6.0% in 2009.

The company is closely wedded to the fortunes of the Irish economy, and therefore for the next few years it will continue to operate in a depressed trading environment. That being said, Dublin Airport's dominant market position should enable DAA to weather the economic storm rather better than most. It benefits from a supportive regulatory regime: the maximum passenger charge at Dublin Airport was increased by €3 (41%) between 2009 and 2011, around €2 of which relates to T2. The regulator has allowed an extra €635 million for T2 in the company's Regulated Asset Base, bringing the total to €1.45 billion: the return allowed on these assets is 7%, the estimated real, pre-tax cost of capital for DAA. All in all, DAA can be expected to recover strongly over the coming years provided that it maintains a focus on costs and debt management.

12.6 Dividends

DAA has paid three dividends over the past eight years - €7.25 million in 2003, €6 million in 2004 and €19.4 million in 2009. Although the company has distributable reserves, future dividend payouts will be difficult to justify until the company becomes cash generative again. Certainly, when it returns to a more solid financial and operating footing, the shareholder should expect to receive more regular dividend payments than it has done in the past.

Recommendation 35: As an exception to our general recommendation on dividend policy, the Review Group recommends that no dividend be sought from DAA for the present.

12.7 Pay and Pensions

In the last 12 months the company and staff have agreed a cost recovery programme that involves pay reductions - for those earning over €30,000 - and a voluntary redundancy scheme. In addition, the company has introduced new and less costly pay and pension packages for new employees recruited to service T2. These measures, which are important to allow the company to regain lost efficiency, will help to reduce employee costs over the next few years.

Table 12.5: DAA Employee Remuneration (excl. exceptional pension costs)

	Average no. of employees	Wages & salaries	Employer pension contributions	Average pay (wage/salary)	Employer pension contribution as % of pay	Average pay incl employer pension contributions
		€000	€000	€000		€000
Dec-09	3,103	153,115	7,212	49.3	4.7%	51.7
Dec-08	3,237	161,237	6,593	49.8	4.1%	51.8
Dec-07	3,163	156,606	7,592	49.5	4.8%	51.9

The majority of the company's permanent employees are members of the multi-employer Irish Airlines (General Employees) Superannuation Scheme (IAS Scheme). The DAA's current and past employees comprise 27% of the membership. The other members of the scheme are staff and retired personnel of Aer Lingus and SR Technics (formerly Team Aer Lingus), which was closed down in 2009.

The IAS Scheme is a final salary scheme and is registered as a defined benefit scheme with the Pensions Board. However, DAA and the other employers in the scheme take the view that that there is no legal or contractual obligation to alter the agreed employer contribution rate (6.375% of pensionable salary) as provided for in the scheme's rules. Accordingly, DAA and the other employers in the scheme account for the costs as a defined contribution scheme and charge just these contributions against profits. The DAA's balance sheet does not include any share of the IAS Scheme's deficit, estimated to be about €400 million at end-2010.

12.8 Divestment Opportunities

Apart from its terminals in Dublin, Cork and Shannon, DAA has significant overseas interests through its wholly-owned subsidiary, Aer Rianta International (ARI). ARI's subsidiaries include duty-free businesses in Montreal, Kosovo, Moscow, Kiev and Bahrain. Total revenue from these business amounted to €126 million in 2009, down from €135 million in 2008. Overseas subsidiaries now account for a sizeable segment of DAA's business, contributing 23% of total revenues in 2009, compared with 11% in 2002.

DAA also holds associate stakes in a number of overseas duty-free businesses, together with a 20% stake in Düsseldorf Airport, which was part-privatised in 1997. These associate holdings had a book value of €91 million at end-2009, yielding dividend payments to DAA in the same year of €19 million (2008: €13.6 million). These associate holdings, if sold, would likely fetch a multiple of book value.

Düsseldorf Airport, which is 50% owned by the City of Düsseldorf, is Germany's third largest airport, with traffic of 18 million passengers. It generated EBITDA of €122 million in 2009 on turnover of just under €400 million. European airports are currently valued at 8 to 9 times 2009 EBITDA. Frankfurt Airport offers perhaps the most appropriate yardstick, currently valued at a little over 10 times 2009 EBITDA. On this basis DAA's interest in Düsseldorf Airport alone could be worth in excess of €150 million.

There is little prospect of DAA selling its other Irish investments in the foreseeable future. These include two 50%-owned joint venture businesses, Gatland Property and Turckton Developments (business park development). These businesses, which returned losses to DAA of €7.9 million in 2008 and €6.4 million in 2009, are included in DAA's balance sheet at a negative value of €11.3 million, with DAA's share of the assets (€23.8 million) dwarfed by associated liabilities of €40 million, mostly debt. This debt is non-recourse to DAA. DAA's other property interests include a 37.5% associate interest in Brooklyn Properties, a Cork Airport Business Park development. Besides land and airfields, the company also had other property assets with a book value of €180 million at the end of 2009. Within this category are car parks, hangers and warehouses, landside buildings and roads.

12.9 Recommendations on DAA

Given the pressures on the company's balance sheet, DAA needs to pursue an extensive retrenchment programme aimed at protecting the long-term interests of its core operations. The Review Group believes that there are disposal opportunities for non-core assets that could contribute significantly to debt reduction at DAA. In due course, the airports business is a privatisation possibility, subject to regulatory oversight in the case of Dublin which is likely to dominate the Irish airports sector indefinitely.

Recommendation 36: The Review Group recommends that the DAA should dispose of its non-core assets, primarily overseas, as a means of substantially reducing its debt exposure. The timing of this deleveraging programme should be determined by the company board. In due course, privatisation of the airports should be considered.

The government should also consider whether it is sensible to continue passenger service at as many as nine airports in the Republic, in addition to a further three in Northern Ireland, particularly in view of the progress in creating an extensive modern motorway network.

12.10 The Regulatory Arrangements for Irish Aviation

The Commission for Aviation Regulation sets tariff caps for Dublin Airport and terminal navigation charges at the three DAA airports. The regulation of charges has been contentious and there has been periodic resort to the courts, including a prolonged dispute with the regulator arising from the capital investment plans of Aer Rianta, DAA's predecessor, including the investment in the controversial Cork terminal. The regulator has also been in receipt of a Ministerial directive regarding charges at Dublin consequent on the commissioning of T2 and the financial burdens arising from the heavy capital investment programme at that airport.

Dublin and Cork now have substantial excess terminal capacity and this will continue to be the case for many years. The effect of the regulatory settlement is that current customers must pay increased charges to reflect the excess capacity, a perverse outcome which would not arise in a competitive industry, where shareholders rather than customers would absorb a capital loss. The aviation regulatory regime does not mimic the competitive outcome in this regard.

Recommendation 37: The Review Group recommends that, whether DAA's airport assets are privatised or retained in state ownership, the regulatory arrangements need to be reviewed and in particular the scope for political intervention in capital investment decisions curtailed.

12.11 The Stake in Aer Lingus

The government has retained a stake of 25.1% in Aer Lingus.[15] The company has recently reported a return to profitability. The largest shareholder in Aer Lingus is Ryanair with 29.8%. Ryanair has twice bid for the company, at €2.80 and €1.40, versus the recent share price of about €0.73. The EU Commission has ruled against a Ryanair bid on competition grounds.

[15] The Government owns 134.11 million shares worth about €100 million at the recent share price.

At the time of privatisation, concern was expressed about the company's holding of take-off and landing slots at London's Heathrow Airport, and so there are disposal restrictions contained in the Company's Articles of Association. Aer Lingus owns 23 slot pairs at Heathrow, and the value of these derives from the price-cap at Heathrow imposed by the UK regulator, the Civil Aviation Authority. Heathrow slot-pairs have changed hands reportedly at prices of £10 million and upwards.

Aer Lingus is currently using all 23 of its slot-pairs at Heathrow, providing 13 round-trip services on Dublin, 4 on Cork and 3 each on Belfast and Shannon. Total round-trip service on Dublin-Heathrow is 17 rather than just the Aer Lingus 13, since British Midland operates a further 4 services, and there are also about 30 other round-trip flights per day between Dublin and other London area airports (Luton, Stansted, Gatwick and London City). Both Cork and Shannon offer links to other European transfer points besides Heathrow, including London Gatwick and Paris Charles de Gaulle. The position at Dublin is as shown in Table 12.6 below.

Table 12.6: Daily Departures to European Hubs at Dublin, Summer 2010

London Heathrow	17	(Aer Lingus 13, British Midland 4)
Amsterdam	5	(Aer Lingus 5)
London Gatwick	9	(Aer Lingus 5, Ryanair 4)
Frankfurt	5	(Aer Lingus 2, Lufthansa 3)
Paris CDG	10	(Aer Lingus 3, Air France 7)

The Group believes that the Heathrow slots would be deployed to their optimum use in the absence of restrictions and optimum use would include the busiest routes: Dublin-London is one of the busiest city-pairs in Europe and it is not plausible that Dublin-Heathrow would be under-served should slot allocation be left to market forces. The London area itself is now served by a number of airports and Irish travellers wanting to make onward connections also have options through other European hubs such as Amsterdam, Brussels, Paris and Frankfurt.

12.12 Recommendations on the Aer Lingus Stake

Under the prevailing EU position on competition, Ryanair would not be permitted to acquire these shares. The industry view is that full-service airlines in Europe will consolidate into three main groups built around BA/Iberia, Lufthansa and Air France/KLM. One of these groups could be a bidder for Aer Lingus, and there are other consolidation possibilities. The disposal of the Aer Lingus stake is not urgent and the objective should be the realisation of maximum value. In this connection the UK's Office of Fair Trading has

initiated a process, which is likely to be challenged in the courts, that could lead to divestiture of some or all of Ryanair's stake.

Recommendation 38: The Review Group recommends that the Aer Lingus shares be disposed of as soon as is opportune.

Section 13: The Irish Aviation Authority

Established on a commercial footing in 1994, the Irish Aviation Authority operates terminal navigation at the three DAA airports in Ireland, provides air navigation services in Irish-controlled airspace and is the navigation body responsible, with the UK, for the Eastern portion of the main air corridors between NW Europe and North America. Terminal charges are regulated by the Commission for Aviation Regulation (CAR) and it receives *en route* charges for over-flights which are computed on a cost-recovery basis and are governed by international agreements.

13.1 Ownership Structure and Governance

The IAA is a wholly-owned state company operating under the Companies Acts (1963 to 2005), the Irish Aviation Act (1993) and the Air Navigation and Transport Acts (1936 to 1998). The Minister for Finance is the main shareholder in the company, holding all but one share in the company, the remaining share is held by the Minister for Transport.

The company employs over 700 staff across its business divisions – air traffic control, safety regulation, technology and training, and administration and corporate affairs – located in Dublin city centre (HQ); Dublin, Cork and Shannon airports; Ballygirreen, County Clare; and Ballycasey, County Clare. Its turnover in 2009 was €161 million.

13.2 Activity and Income Streams

The IAA provides air traffic control services for *en route* flights over Ireland (mostly destined for other countries, but also internal flights), operates terminal navigation at the three DAA airports in Ireland, and, jointly with its UK counterpart (National Air Traffic Services - NATS), provides air traffic control services beyond Irish-controlled airspace in the North Atlantic in an area known as the Shanwick oceanic control area. Shanwick and Irish-controlled airspace are two of the main air corridors between Europe and North America, with the IAA's Ballygirreen facility handling up to 90% of all transatlantic air traffic. Each of these activities provides an income stream for the IAA. Charges for domestic terminal navigation services are regulated by the CAR and *en route* charges for over-flights through Irish-controlled airspace are set by the IAA in conformity with the charging principles for route charges administered by EUROCONTROL. Charges for Shanwick services are set separately by the IAA and NATS in accordance with their own individual service levels.

The IAA is remunerated on a per tonne basis for terminal navigation services at the three airports, set in 2009 at €3.36 per tonne, and on a per unit fee for *en route* (within Irish-controlled airspace) and Shanwick (North Atlantic) air traffic control services of €30.68 and €43.00 respectively. Separately, the IAA also has an aviation safety regulation function, which includes licensing and certification of aerodromes, aircraft, flight crews, airspace classification, instrument flight procedures and aeronautical charts. There is a fairly comprehensive fees structure underpinning these functions which is set by Statutory Instrument.

In 2009, *en route* services accounted for 64% of IAA's revenues, terminal navigation services 14%, Shanwick 12% and safety regulation 10%. This proportional breakdown from the various revenue streams has remained constant over time. Altogether, 76% of IAA's business is from customers flying North Atlantic routes.

Table 13.1: IAA Revenue Streams

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
En route Revenue	102,826	106,615	100,204	86,100	84,160	81,886	74,348	63,334
N. Atlantic communications	16,567	17,622	16,836	15,376	14,192	13,034	12,035	11,073
Other (including terminal charges and safety regulation)	41,753	42,446	37,203	32,894	29,329	29,547	24,187	21,347
Total Revenue	161,146	166,683	154,243	134,370	127,681	124,467	110,570	95,754

13.3 Operational and Financial Performance

Following a period of strong growth from 2002 to 2008, during which the IAA's top-line increased at an average annual compound rate of just under 10%, revenues fell by 3.3% in 2009, from €166.7 million to €161.1 million. This was because air traffic volumes were down across the board, with *en route* and Shanwick traffic down by 7.5% and terminal commercial traffic at the three main Irish airports down an average 17.4%. These volume declines were partially offset by higher charges, with *en route* service unit rates up by 3.9%. Indeed, over the past four years the *en route* service unit rate has risen by 9.6%, while the terminal unit rate is up 26.5%. As *en route* charges are calculated with reference to a cost-recovery mechanism, when volume falls the per-unit price allowed under the EUROCONTROL charging principles increases. It is effectively a guaranteed level of income. The increase in terminal charges provided for by the CAR reflects remuneration of the large capital investment in new infrastructure undertaken by the IAA.

The increase in *en route* rates in 2009, together with a reduction in pension cash costs of over €9 million, helped limit the decline in operating profits to just 12%, from €15 million to €13.2 million, with operating margins falling from 9.0% to 8.2%. The decline in pre-tax profits was more severe than at the operating profit level due to sharply increased pension-related finance charges. These totalled €6.7 million in 2009, compared with a credit of €1.9 million in 2008, contributing to a total decline of €11 million (-65%) in pre-tax profits, from €16.9 million to €5.9 million. On foot of this, earnings were down over €8 million (-67%), from €12.2 million to €4 million. Return on average capital employed was down from 12.4% in 2008 to 10.5% in 2009.

13.4 Outlook

The financial performance of the IAA is dependent on the fortunes of the airline industry, specifically the number of transatlantic flights from Europe to North America and the number of flights into and out of Ireland's three main airports. While it is a monopoly provider of air traffic control services within Irish-controlled airspace (and one part of a duopoly within the Shanwick area) it is passive in the sense that it cannot stimulate traffic

growth and its operations are geographically restricted by international conventions. Therefore, its performance ebbs and flows in tandem with European and Trans-Atlantic airline activity levels. A look at its financial performance in 2002, when Trans-Atlantic traffic levels collapsed for a period after the New York Twin Tower attacks, will support this.

In keeping with medium to long-term growth projections for the aviation industry as a whole and expectations of a rapid increase in traffic levels as soon as the European and US economies recover, the outlook for the IAA is healthy. Indeed, despite the downturn in activity in 2009 and a higher level of capital spending, IAA generated a positive cash flow of a little over €7 million, leaving it with a net cash balance of €4.6 million. Capital spending in 2009 amounted to €27 million, up from €23 million in 2008 and €17 million in 2007. In 2009, IAA was precluded from paying a dividend as it did not have sufficient distributable reserves due principally to the FRS17 pension liability, which at end of 2009 amounted to €124 million.

13.5 Pensions

IAA provides pensions to its employees under two defined benefit superannuation schemes, one for staff whose employment commenced prior to 1 April 2008 and the other for staff whose employment commenced thereafter.

IAA differs from other commercial state companies in that it charges the cash cost of pensions through the profit & loss account, rather than the accounting charge required under the accounting standard FRS 17. This reflects the fact that the cash cost of pensions is part of defined costs under the EUROCONTROL *en route* navigation service charge mechanism. IAA adjusts for the difference between pension cash cost and accounting cost in its Statement of Total Recognised Gains and Losses so that this departure from accounting standards has no impact on net assets. IAA's pension cash costs have averaged 39% of employee costs, net of social welfare and pensions, over the past four years.

Table 13.2: Employee Costs

	Average number of employees	Wages and salaries	Employer pension contributions	Average pay (wages/salary)	Employer pension cont. as % of pay	Average pay including employer pension contributions
		€000	€000	€000		€000
Dec-09	672	64,224	16,643	95.6	25.9%	120.3
Dec-08	666	61,106	26,005	91.8	42.6%	130.8
Dec-07	658	56,100	24,994	85.3	44.5%	123.2

These relatively high pension payments by the company have had little impact on IAA's pension deficit, however, which has suffered in line with most other defined pension schemes over the last number of years. At the end of 2009, plan assets of €255.7 million represented just 64% of liabilities (€396.9 million), compared with 56% in 2008 and 83% in 2007. A degree of this volatility is down to the fact that 74% of plan assets were invested in equities at the end of 2009.

Table 13.3: Pension Deficit

	2009	2008	2007	2006	2005	2004	2003	2002
	€m	€m	€m	€m	€m	€m	€m	€m
Present value of funded pension obligations	396,933	380,809	378,018	378,426	379,302	323,286	243,680	229,979
Fair value of plan Assets	-255,711	-213,311	-314,010	-307,152	-255,705	-202,974	-177,429	-153,565
Deficit for funded plan	141,222	167,498	64008	71274	123,597	120,312	66,251	76,414
Related deferred tax asset	-17,653	-20,937	-8,001	-8,909	-15,450	-15,289	-8,281	-9,552
Balance sheet pension liability	123,569	146,561	56,007	62,365	108,147	105,023	57,970	66,862

The large pension deficits outlined in the table above have led to deficits in shareholders funds in three of the past six years, the most recent in 2008 when a shareholder deficit of €27.6 million was disclosed. The 2009 accounts show an increase in shareholders funds of €34 million to €6.3 million, which still represents less than half of called-up share capital and led to an EGM during 2010. An improved pension performance in 2010 led to a further increase in shareholders funds to €50 million. As is the case with other defined pension schemes, the deficit is significant but manageable over the medium-term provided the company and staff can agree a more sustainable funding arrangement, including significantly increased employee contributions. The Review Group understands that the IAA and its staff have agreed new pension funding provisions along such lines, following a recommendation by the Labour Court. It is in the company and staff's long term interest to implement this fully and to understand that future pension fund coverage is in both their interests. Expecting the employer to meet the bulk of the funding requirement is no longer sustainable.

13.6 Divestment Opportunities

The IAA has two distinct functions, one as a provider of commercial services (air traffic control) and one as a regulator and standards inspectorate (aviation safety, licensing and certification). The former is a natural monopoly service provision, with potential to be operated by a private commercial entity, while the latter is a statutory function and is better retained under state jurisdiction. Therefore, in the Review Group's opinion, any discussion of divesting of the Irish Aviation Authority should be restricted to its air traffic control services.

The Review Group is not in a position to comment conclusively as to whether the current regulatory framework is appropriate for regulating a private provider of air traffic control services in Ireland as compared with the present situation of a state entity providing these services. Assuming that the issue of regulation can be dealt with – and the Review Group does not underestimate the challenge in this regard – there is certainly a significant commercial value in the IAA's air traffic control services.

The obvious precedent is in the United Kingdom, where the national air navigation service NATS was part-privatised in 2001, with a majority share (51%) transferring to the private sector. NATS is currently owned by the UK government (49%), a combination of airlines (42%), the British Airport Authority (4%) and staff (5%). The UK government has recently announced its intention to dispose of its 49% stake. Taking account of the IAA's strong and relatively secure income base and its medium term growth potential the Review Group estimates that the air navigation services could realise significant value.

Over the medium-term the industry is moving towards ever increasing levels of interoperability between air traffic control agencies across the EU, irrespective of ownership. One option, therefore, could be to merge UK and Irish air navigation services and release some value to the state.

13.7 Recommendations on IAA

There are 27 air navigation organisations in the EU alone and over 40 when European countries outside the EU are included. Notwithstanding the coordinating work of EUROCONTROL, it has long been recognised that Europe should have no more than perhaps 5 or 6 such bodies. European air-space is badly managed, resulting in tortuous flight-paths, exacerbated by excessive reservation of airspace for military use. This results in inefficient utilisation of aircraft and unnecessary carbon emissions. Under its Single European Sky initiative, the EU Commission is seeking to reduce sharply the number of service providers in Europe with a view to cost and emission reduction.

> "We need to shift our thinking in air traffic management from nation-centered to Europe-wide systems and tools. It's vital that the 21st century ATM network serves each airline, airport and passengers safely, efficiently and sustainably."
>
> **Richard Deakin, CEO of NATS**
>
> "The accelerated implementation of the Single European Sky is crucial for the European air transport system. Inefficiencies of the Air Traffic Management system in Europe are responsible for 16 million tonnes of unnecessary CO2 emissions. The fragmentation of the airspace costs the sector €3 billion. The implementation of the Single European Sky is therefore not an option – it is an essential requirement for an efficient and sustainable air transport system in Europe."
>
> **Siim Kallas, EU Commissioner for Transport**

The Irish and UK operations, jointly responsible for the eastern half of the main Trans-Atlantic corridor, are logical partners and already cooperate closely. The IAA has been part of a Functional Airspace Block with the UK since 2008, and the creation of this route-free upper airspace block and night-time fuel saving routes is already generating substantial savings. Since European policy is moving in this direction anyway, an obvious option is for

the two countries to lead the Single European Sky process and merge their air navigation providers. Such a merger could include other EU member states in North-Western Europe.

Recommendation 39: The Review Group recommends that the Government explore the possibility of merging Irish air navigation operations with NATS and possibly other North-West European services. In the event of a merger, the state's share should be disposed of for the benefit of the Exchequer.

Section 14: Coras Iompair Éirean (CIE)

CIE provides public transport services in the state through its three subsidiary companies Iarnród Éireann (Irish Rail), Bus Éireann and Dublin Bus. It is a wholly-owned commercial state company, and has operated within its current corporate structure since 1987, as provided for in the Transport (Re-organisation of Coras Iompair Éireann) Act, 1986. There are four entities within the CIE Group – the CIE holding company (essentially the parent company), Iarnród Éireann, Bus Éireann (including Expressway inter-urban bus services) and Dublin Bus. There are also a number of other business operations within the Group, trading under the holding company or one of the three subsidiaries – CIE Property, Commuter Advertising Network and CIE Tours International (CIE Holding Co), Rosslare Europort (Irish Rail), and Day Tours and Airlink (Dublin Bus).

14.1 Ownership Structure and Governance

CIE is unusual among Irish semi-state companies in that it is a statutory company operating under the Transport Acts, without share capital. The ownership of each of the three transport subsidiary companies within the Group is vested in the CIE holding company and not the state.

14.2 Activity and Income Streams

The holding company is responsible for overall Group administration (including debt management, pensions, insurance liabilities, legal and secretarial support, internal audit, information technology and security), property management and for operating the group's advertising company CAN (Commuter Advertising Network) and CIE Tours International. Irish Rail operates DART, intercity and commuter rail services, and Rosslare Europort. Dublin Bus operates public transport bus services in the Greater Dublin Area, the Airlink bus service to Dublin Airport and the tour guide service Day Tours. Bus Éireann operates provincial urban bus services and the interurban Expressway bus service.

CIE Holding Company

The principal activities of the holding company, aside from group administration and financial management responsibilities, are the commercial operation of the Group's substantial property portfolio, its outdoor advertising company, CAN, and CIE Tours International, an international travel company providing package holidays to Ireland.

The Review Group did not undertake a detailed analysis of the CIE property portfolio, but there is little doubt that it remains a substantial asset, consisting of buildings and sites throughout the country, some of them in prime urban locations. The portfolio extends beyond bus and train stations and related transport facilities. CIE has realised part of this portfolio over the last decade through rents, disposals and development partnerships with the private sector. The annual rental income is in the order of €15 million, while capital revenues of over €120 million were realised from property related deals in the period 2004 to 2009, according to CIE.

The CAN operation sells advertising space on its fleets (inside and outside vehicles and carriages), at bus stops, in bus and rail stations and also on hoardings on CIE sites. As it is piggybacking on an existing asset base and related facilities, CAN is a relatively low cost operation, with minimal overhead costs and very little capital requirements. Consequently, it is a fairly profitable operation and contributes in the order of €8 million per annum to group revenues.

CIE Tours International is a commercial travel and tour operator selling package holidays in Ireland - primarily in the North American and Continental European markets – and package holidays in Europe, specifically river cruises. It is a profitable operation with revenues in 2009 of just over €32m. In addition, revenues are principally in US dollars, which the CIE Group can use as a currency hedge for oil purchases.

Iarnród Éireann (Irish Rail)

Iarnród Éireann is the largest of the three subsidiary transport companies within the CIE Group in terms of balance sheet value, revenue, ongoing capital investment requirements and staff. It is a monopoly railway infrastructure company and a railway service provider, operating and maintaining 1,734 km of rail line and 141 stations. It is responsible for the DART suburban rail system in Dublin and intercity and commuter rail services nationwide. Heavily subsidised by the Irish Exchequer, it receives more than half of its income in the form of state grants to support ongoing operations and capital investment. Over the last decade, and particularly in the last five years, Irish Rail has received a huge level of free capital funding from the state (over €2.2 billion in the period 2002-2009), which it has used to renew its rolling stock, upgrade existing infrastructure (rail lines, railway safety projections, signalling systems and stations) and build new rail lines. It has also received funding from the European Structural Fund. As with the other transport companies within the Group, Irish Rail is also dependent on annual contributions from the state to offset loss making public transport services across its network (approximately €150 million per annum).

The rail company is also responsible for the management and operation of Rosslare Europort, a significant Ro-Ro ferry facility in the South East of the country providing sea links to the UK and Continental Europe. The port is an important piece of national infrastructure in trade and tourism terms. It generated an operating profit of approximately €1.6 million in 2010.

Dublin Bus

The primary activity of Dublin Bus is the provision of scheduled public bus services in the Greater Dublin Area. With a fleet of about 1,000 buses, it designs and operates the capital city's bus network of about 150 routes. It is a market-dominant firm underpinned by state regulation, although it faces some competition from private sector providers on a few Dublin commuter routes (e.g. from Swords) and on services from Dublin Airport. While not on the same scale as its sister company Iarnród Éireann, Dublin Bus has received a significant amount of free capital from the state over the past decade, and especially in the last five years or so (over €100 million). This has been spent on the purchase of new buses, the building of a new bus depot in North Dublin, upgrades to existing depots, new and upgraded bus stops and new ticketing systems. The company has benefited from

expenditure by Dublin's local authorities on bus lanes and other bus priority measures along their routes, and has also received some small funding from the European Structural Fund. The Dublin Bus fleet has been substantially upgraded. As with the other transport companies within the Group, Dublin Bus is dependent on annual contributions from the state to offset loss-making public transport services across its network (approximately €75 million per annum).

The company also runs an open-top bus tour company for tourists, Day Tours, and a point-to-point express service from the city centre to Dublin Airport, Airlink. Both of these operations are profitable on a stand-alone basis, and both face competition from private sector providers.

Bus Éireann

Bus Éireann provides urban and rural bus services nationwide and an interurban bus service (Expressway) linking the major cities and towns on the island of Ireland. This includes the provision of quite extensive city bus services in the major regional cities (Cork, Galway, Limerick and Waterford), in some large towns (including Athlone, Navan, Dundalk) and to these urban centres from the surrounding rural towns and villages. It receives approximately €45 million from the Exchequer in support of its loss-making public transport services. Bus Éireann also runs school transport services funded by the Department of Education.

While the urban and rural bus services receive state support the Expressway service is run on a fully commercial model and competes with private sector operators. It is a sizeable operation with over 200 coaches, some 8 million patrons per annum and revenues in the region of €50 million. Expressway had been profitable but has suffered losses in recent years.

14.3 Financial Background

As Table 14.1 shows, the CIE Group overall makes losses at the operating level, €371 million in 2009 and €391 million in 2008, before crediting the Public Service Obligation payments. These amounted to over €300 million in each of the past three years. In addition, as discussed above, CIE receives substantial capital grants, which have increased very significantly in recent times. In the three years 2007-2009 capital grants to CIE averaged just over €500 million, 80% up on the average paid over the previous three years. Over the period of eight years from 2002 to 2009, CIE received over €3 billion in capital grants, most of which went on railway capital works. In 2009, Iarnród Éireann accounted for 73% of total capital grants paid to CIE and 67% of CIE's total grant funding.

These grants, which are primarily from the state but do include some EU monies, are not included in the profit and loss account in the year in which they are received. Rather, they are amortised over the useful life of the assets to which they relate and these amortised grants are offset against operating expenses. In 2009, for example, state and EU grants amounted to €441.8 million, but only €130.6 million of grants were amortised in the profit and loss account.

Table 14.1: Income Summary CIE

Income Summary CIE	2009 €000	2008 €000	2007 €000	2006 €000	2005 €000
Revenue (excl. JV turnover)	742,045	789,121	785,512	746,412	704,520
EBITDA	-310,945	-335,179	-277,745	-265,848	-217,500
Depreciation	191,131	171,907	146,182	118,452	108,998
Grant Amortisation	-130,644	-115,845	-86,552	-68,874	-56,409
Operating Deficit	-371,432	-391,241	-337,375	-315,426	-270,089
Profit on disposals	3,510	69,500	8,074	29,619	5,675
Deficit before interest and op. grants	-367,922	-321,741	-329,301	-285,807	-264,414
Net interest payable	-791	1,141	-139	-1,985	-2,132
Other finance (Costs)/Income	-24,900	9,700	7,800	11,100	8,900
Net interest & other finance costs	-25,691	10,841	7,661	9,115	6,768
Deficit before operating grants	-393,613	-310,900	-321,640	-276,692	-257,646
PSO's & other Exchequer grants	315,960	321,093	320,163	298,681	283,427
Release of provision			29,721		
(Deficit)/Surplus for year	-77,653	10,193	28,244	21,989	25,781

14.4 Outlook

Each of the CIE companies has experienced significant falls in passenger numbers and fare box revenues over the last few years, and the companies forecast this trend will continue for the next few years. The level of state financial support for services (as distinct from capital support for infrastructure) has also been reduced. As a consequence of this, each of the companies has sought cost efficiencies, including reductions in services and staff numbers. However, in an environment in which much less financial support from the state is going to be available to subvent operational losses and finance capital investment, the group as a whole faces very serious financial and operational challenges. Those operations that remain profitable on a stand-alone basis - namely CIE Tours International, Airlink and Day Tours – provide relatively modest contributions to the group finances in the context of these overall financial challenges.

14.5 Pay and Pensions

The CIE group operates two defined pension employee pension schemes, one for administrative support staff and management (CIE Superannuation Scheme 1951, (Amendment) Scheme 2000) and one for drivers, engineers and craft workers (CIE Pension Scheme for Regular Wages Staff). As is the case with many defined pensions schemes, the two CIE schemes are in significant deficit. The gap between available funds and future liabilities was €547 million at end-2009. By end-2010, the deficit had narrowed to €250 million following an improved investment performance and the introduction of a policy of no increase in pensionable pay. The 2009 pension shortfall had resulted in a substantial deficit in equity capital of €346 million in 2009, compared with a deficit of €291m in 2008, and a surplus of €120 million in 2007. There was little change in the number of staff and payroll costs between 2006 and 2009: the average number of people employed by CIE fell from 11,816 to 11,463 (- 3%). Although Iarnród Éireann reduced its numbers quite significantly (from 5,317 in 2006 to 4,679 in 2009 (- 12%)), this was largely offset by increases in staff numbers at Dublin Bus and Bus Éireann. Average numbers employed by

CIE fell to 10,995 in 2010 (year-end numbers employed in Iarnród Éireann were 4,254) as a result, *inter alia*, of various restructuring deals struck with the staff.

Table 14.2: CIE Employee Costs

	Average number of employees	Wages and salaries	Employer pension contributions	Average pay (wages/salary)	Employer pension cont. as % of Pay	Average pay including employer pension contributions
		€000	€000	€000		€000
Dec-09	11,463	563,056	55,400	49.1	9.8%	54.0
Dec-08	11,848	581,818	52,100	49.1	9.0%	53.5
Dec-07	11,701	545,563	39,200	46.6	7.2%	50.0

14.6 Divestment Opportunities

The Review Group has considered a range of options relating to the CIE Group of companies, including the option of the state selling all or some of the subsidiary companies and interests.

Box 14.1 - Privatisation Options in the Bus Market

Urban and outer suburban bus services in Ireland are provided, with public subvention, mainly by Dublin Bus and Bus Éireann. The latter company operates networks in the main provincial cities and also many of the outer suburban routes serving the Dublin commuter belt. Private bus companies also provide some short-haul services, on a limited scale, in Dublin and elsewhere.

Dublin Bus operates as a nationalised, regulated and subsidised near-monopoly. Most of its routes are understood to make operating losses but these losses vary considerably between routes. There have been proposals from time to time to introduce more competition in the Dublin bus market where the existing arrangements inhibit severely the entry of new operators. However the creation of competition in urban bus markets is not straightforward. Unsubsidised private operators will not be attracted to routes most of which are loss-making. Subsidising private operators in competition with a dominant state-owned and subsidised company would create additional regulation and market design challenges. However, it is possible to design a competitive market which accommodates public subsidy for loss-making routes. One model is the one used in London, where the public authority (in this case Transport for London) designs the network and the level of service provision and then tenders the actual route operation to the private bus companies, the formerly publicly-owned buses and garages having been privatised into a number of competing units. In essence, given the routes and schedule requirements, the companies tender for franchises and the package of routes is awarded to the company requiring the lowest subsidy.

The Group regards as feasible the privatisation of Expressway and the complete liberalisation of long-distance services, where there are already substantial private sector operators and where public subsidy is not required. The rural stage carriage services of Bus Éireann and the provincial city services require large ongoing subsidy and the Group does not consider that they there are attractive privatisation options.

Having regard to the unavoidable losses inherent in maintaining a nationwide railway and uneconomic urban and rural bus services, disposal or part-disposal of the main CIE companies is not a realistic short-term option. However, the Review Group does not see the logic in the state owning a package tour company, city bus tour company, airport express company or an interurban bus company each of which are competing with private sector providers in contestable markets.

14.7 Recommendation

Recommendation 40: The Review Group recommends that CIE's tours business, Rosslare port, Expressway and other bus businesses competing directly with private operators should be disposed of. Policy should seek to limit the level of public subsidy through greater efficiency and the amount of capital to be invested in further transport projects should be severely constrained. The Review Group recommends that the privatisation of all or part of Dublin Bus should be considered in due course, but only after government has decided on a model for competition in the Dublin bus market.

Section 15: Public Service Broadcasters (RTÉ and TG4)

State ownership in the broadcasting sector comprises the two statutory public service broadcasters, RTÉ and TG4, and RTÉ's wholly-owned subsidiary RTÉ Networks Limited.

The principal objects of both RTÉ and TG4 are contained in the Broadcasting Act 2009, which sets out national policy on public service broadcasting and provides statutory mandates that distinguish RTÉ and TG4 from their commercial counterparts. In the case of RTÉ, the mandate includes specific requirements, *inter alia*, to provide national, free-to-air public service broadcasting services; to support orchestras, choirs and other cultural performing groups; to maintain libraries and archives; to operate, where practicable, public service broadcasting services for Irish communities outside of Ireland; and to operate, where practicable, free-to-air public service community, local, or regional broadcasting services. TG4 is required to provide a national television broadcasting service available on a free-to-air basis to the whole community on the island of Ireland for the purposes of promotion and development of the Irish language.

15.1 Corporate Structure, Governance and Operations

Both RTÉ and TG4 are statutory corporations with no state shareholding. They are governed by twelve-member boards, six of whom are appointed by the Government on the nomination of the Minister for Communications, Energy, and Natural Resources and four of whom are appointed by the Government on the nomination of the Minister having regard to the advice of the joint Oireachtas Committee on Communications. The Director General and a staff member elected in accordance with the broadcasting statute are also appointed.

RTÉ was established under the Broadcasting Act, 1960 and is the state's main public service broadcaster. It operates two television channels, RTÉ 1 and RTÉ Two, a number of analogue radio channels (RTÉ Radio 1, RTÉ 2 FM, Raidio na Gaeltachta and Lyric FM) and provides a range of web-based services. It also operates a number of digital radio channels that are currently only broadcast on the DAB digital radio service and an online service, the RTÉ Player, which was launched in April 2009.

RTÉ also engages in activities and businesses that are ancillary to and support the achievement of its public service objects. These include RTÉ Publishing, RTÉ Performing Groups and RTÉ Networks Limited. RTÉ Publishing has a portfolio of five brands: RTÉ Aertel, the RTÉ Guide, RTÉ.ie, the RTÉ player and RTÉ News Now. RTÉ Performing Groups encompasses two orchestras (the RTÉ National Symphony Orchestra and the RTÉ Concert Orchestra), two choirs (the RTÉ Philharmonic Choir and RTÉ Cór na nÓg) and the Vanbrugh String Quartet.

RTÉ Networks Limited (RTÉNL) was established in 2003 as a wholly-owned subsidiary of RTÉ to operate and maintain the nationwide analogue terrestrial broadcast transmission network for RTÉ Radio and Television, which had been built-up in public ownership since the 1920s. It also provides contribution, distribution and transmission as well as hosting facilities and engineering services to other broadcasters. The network comprises upward of 140 transmission and relay sites in strategic geographic locations throughout the country. It is currently undergoing a major upgrade from analogue to digital technology to allow for

the roll-out of Digital Terrestrial Television (DTT) broadcasting (see below). RTÉ has estimated that, if this network were to be replicated, it would cost in the region of €400-500 million. RTÉNL also hosts other national and local broadcasters, as well as telecommunications and other service providers.

TG4 was established by statute in 1996 to deliver Irish language programming on a national free-to-air basis. After operating under the aegis of RTÉ for a decade as Teilifis na Gaeilge, it was established as an independent statutory body in April 2007.

15.2 Funding for Public Service Broadcasting

RTÉ is part funded by commercial advertising and by a television licence fee levied on all households that have a television, which means virtually all households. Effectively the license fee amounts to a poll tax.

The Television Licence Fee is set in broadcasting legislation: The Broadcasting Act, 2009 provided that 93% of licence fee receipts (net of the collection and enforcement costs) be allocated to RTÉ and the remaining 7% to the Broadcasting Fund. Under the National Recovery Plan, Exchequer funding for TG4 will be reduced with the shortfall made up from RTÉ's licence fee allocation (This is in addition to RTÉ's current obligation to provide one hour per day of free programming to TG4).

In 2009, total licence fee receipts were €225.3 million. Of this, €55.7 million comes directly from the Department of Social Protection to fund free TV Licences provided as part of the Household Benefits Package which is made available to the over 70s and certain other categories. An Post was paid €12.4 million for running the collection and enforcement system. RTÉ received €200.2 million and €11.9 million went to the Broadcasting Fund. RTÉ's commercial income for the year was €174.7 million, which means that the broadcaster was 53.4% licence-fee funded in 2009.

Table 15.1: RTE Revenue Streams

	2009	2008	2007	2006	2005	2004	2003	2002
	€000	€000	€000	€000	€000	€000	€000	€000
Advertising revenue	131,671	195,603	202,422	183,960	165,121	144,144	127,201	126,960
Other commercial revenue	43,033	44,305	43,031	38,226	34,636	32,574	28,046	30,987
Total commercial revenue	174,704	239,908	245,453	222,186	199,757	176,718	155,247	157,947
Licence fee revenue	200,217	200,852	195,699	182,835	170,131	166,164	157,425	114,051
Total revenue	374,921	440,760	441,152	405,021	369,888	342,882	312,672	271,998

TG4 currently receives over 90% of its funding by way of Exchequer grant-in-aid and the remainder from commercial income. In 2009, the break-down was €36.4 million in gross Exchequer Grant-Aid (including current and capital) and commercial income of €3.4 million.

15.3 Basis for the Funding of RTÉ via the TV Licence Fee

The rationale advanced for funding via a TV Licence is that it provides an independent and reliable income flow for Public Service Broadcasting. Licence fee income is provided to RTÉ as the broadcaster with the remit for public service broadcasting to the population generally and the preponderant creator of independent Irish audiovisual news and current affairs. TV3, a privately-owned commercial broadcaster, has more limited public service obligations. TG4 is regarded as a niche public broadcaster (2.7% peak viewing) and is currently almost fully funded by the taxpayer.

It should be noted that, under the legislation, RTÉ provides TG4 with 365 hours of Irish-language programming (mainly news programmes e.g. Nuacht) per annum free of charge. This amounted to a subvention of approximately €10.6 million in 2009 according to RTÉ's Annual Report & Accounts for that year.

15.4 Public Service Broadcasting Funding and EU State Aid Provisions

RTÉ is dual-funded, receiving most of the proceeds from the license fee as well as advertising and other commercial revenue. Its private competitors in both radio and television rely only on advertising revenue. This contrasts with the position in the United Kingdom, where the BBC gets the license fee proceeds but is not allowed to access the advertising market. The private broadcasters in Ireland must meet some public service content thresholds too, and they complain that the playing field is tilted against them.

The 'Amsterdam Protocol' to the European treaties allows EU member states to fund public service broadcasters as they see fit, without the general application of the normal state aid rules. The advent of competition in the broadcasting sector in the 1990's led to criticism that RTÉ's dual funding arrangements lack transparency. As a result, the position that all of RTÉ's output on its various channels should be seen as falling into the public service category, and that no attribution of the licence fee subsidy to specific programming segments was necessary, became unsustainable.

The European Commission, in the context of both general competition policy and the Amsterdam Protocol, has carried out a detailed assessment of the Irish system of funding and authorisation. Subsequent negotiations between D/CENR and the Commission resulted in various 'oversight' powers being granted to the Broadcasting Authority of Ireland (BAI), in the Broadcasting Act 2009.

15.5 Licence Fee/Exchequer Funds to Public Service Broadcasters

The Broadcasting Act, 2009 brings greater clarity to the scope of the public service remit by enumerating the objectives and duties of the public service broadcasters and stipulating that the use of licence fee and Exchequer funding is limited to these public service objects and duties. Under the Act, RTÉ and TG4 must prepare and publish a public service broadcasting charter and issue annual statements of commitments that detail the principles to be observed and the activities that they will undertake in fulfilling their statutory remits. They must report annually on the use that they have made of the public funding that they have received and to distinguish between transactions and arrangements entered into in

pursuit of public service objects and the pursuit of the object to exploit such commercial opportunities. The Act also provides that the BAI undertake reviews on the basis of the charters and annual statements of commitments referred to above, and make recommendations to the Minister for Communications on the level of public funding of RTÉ and TG4.

The BAI, or one of its statutory committees, must, at the request of the Minister, report on compliance by RTÉ and TG4 in respect of ensuring that transactions or arrangements entered into by public service broadcasters as between public service objectives and the exploitation of commercial opportunities are made at arms length. It is too early to judge whether these arrangements are effective in producing a level playing field in the Irish broadcasting market.

15.6 Recent Financial Performance of RTÉ

RTÉ experienced strong revenue growth between 2002 and 2007. Commercial revenues increased from €158 million to €245 million and licence fee revenues rose from €114 million to €196 million in the period. A significant fall-off in advertising revenues became apparent from Quarter 2 of 2008. In 2009, commercial revenue, including advertising, declined 27% to €174 million. In contrast, licence fee revenue was only marginally lower at €200 million and accounted for 53.4% of total revenue. In 2009, total revenues at RTÉ were down 15%, from €441 million to €375 million, marginally ahead of 2005 levels. RTÉ addressed declining revenues by cutting back its cost base. Operating costs were reduced by 13% in 2009 from €461 million to €401 million. Capital spending was also reined in. The 2009 figure of €19 million for capital was down over 50% on the previous year (€44 million). Since 2002, RTÉ's net capital expenditure has averaged just 85% of depreciation. Reflecting this, fixed assets at end 2009, at €98.3 million, were below 2002 levels (€127.5 million).

Significant cash reserves were accumulated in the years to 2007 to meet up-coming capital commitments. These reserves fell from €90 million at end-2007 to €59 million at end-2009. In order to preserve liquidity some capital expenditure is either being delayed or postponed, whilst working capital is being tightly controlled. Funding of the capital programme is a challenge for RTÉ in the light of the switch to Digital Terrestrial Television (DTT), the infrastructure for which must be in place to meet a statutory deadline (under an EU directive) of end-December 2012.

15.7 Pay and Pensions

Unlike most of its semi-state counterparts, RTÉ's defined benefit pension scheme is in surplus (€9.2 million at end 2009). This scheme has been effectively closed to new employee members since 1989. Contributions to the defined contribution schemes significantly outweighed defined benefit contributions last year (€9.5 million v €3.9 million). Even though the defined benefit scheme was in modest surplus last year, the volatile nature of investment markets can still have a sizeable impact on RTÉ's equity capital, as evidenced in 2008, when a €104 million adverse movement in the pension scheme saw equity capital shrink from €177 million to €74 million. Equity capital recovered to €145 million at end-2009.

15.8 Digital Terrestrial Television

RTÉ (as the public service multiplex operator) and RTÉNL (as the digital broadcast transmission system provider and operator) are centrally involved in the roll-out of Digital Terrestrial Television (DTT), which entails an investment of €70 million in replacement of the current analogue broadcasting infrastructure. The timescale for completion of the work is end-2012. RTÉ has already spent or committed approximately €40 million on this project and has arranged project financing of €38.25 million of the total spend by way of commercial bank loans.

The roll-out of DTT and the accompanying switch-off of the analogue broadcasting system by end-2012 is a key Government priority. It will release valuable, high-quality spectrum which can be reassigned for other purposes, such as mobile broadband. This will have major licence value for the state with potential to deliver significant additional revenue to the Exchequer (see Section 19 on the state's intangible assets).

15.9 Cross-subsidisation of Public Service by Commercial Activity

Some of the services provided by RTÉ generate little or no commercial income and are subsidised by commercial income from other services. Lyric, RnaG, Performing Groups and the statutory provision of television services (1 hour per day) to TG4 cost €51.3 million per annum but generate just €3.4 million by way of income.

15.10 Conclusions and Recommendations

There is inevitably an issue of competitive equality between a state broadcasting body funded both by advertising revenue and licence fee income and private companies (TV3 and the commercial radio stations) funded by advertising revenues alone. One possible approach is to require RTÉ to compete for more of the licence fee revenue with private broadcasters on specific performance criteria.

Recommendation 41: The Review Group recommends that the portion of the license fee allocated to the Broadcasting Fund, currently just 7%, should be increased substantially, in order to better equalise conditions of competition between RTÉ and the private broadcasters.

In the longer term the sustainability of the licence fee system, based on the increasingly archaic concept of wireless telegraphy and possession of sets and receivers, could become problematic. Apart from the costs of administering the system and combating evasion, ongoing technological change in the multimedia sector could reduce the effective revenue base of the licensing system. A revenue model relying on subscription fees and general taxation may have to be considered in due course. The license fee, in a country where virtually every household has a TV receiver, is in any event a poll tax and regressive in incidence.

In 2009, the Special Group on Public Sector Numbers and Expenditure recommended that TG4 be partially funded from TV licence fee receipts in order to allow a reciprocal reduction in TG4's direct Exchequer subvention. The Review Group notes that a reform of TG4's funding along these lines was signalled in the National Recovery Plan initiated in Budget 2011.

Recommendation 42: In the interests of transparency, the Review Group recommends that RTÉ's provision of Irish language content to TG4 under the provisions of the Broadcasting Acts is transacted on a commercial basis, and funded by TG4 from within its revenues. The respective Exchequer support of each broadcaster should be adjusted accordingly to take account of the transaction.

Recommendation 43: The Review Group recommends that RTÉNL be disposed of as a regulated entity with appropriate safeguards in place to ensure its availability to the state and fitness for purpose in the event of a national emergency.

This would bring the position in the state into line with most other EU countries where broadcast transmission networks are independent of broadcasters.

Recommendation 44: In line with the position taken by the Review Group generally on allocation of radio frequency spectrum (see Section 19 on Intangible Assets), the Group recommends that rights to use spectrum for broadcasting purposes are allocated using a market-based approach that promotes the most efficient management and use of the spectrum resource.

Section 16: An Post and the Postal Market

An Post is a state-owned postal company established under the Postal and Telecommunications Services Act 1983 for the purpose of providing a "national postal service" to meet the "industrial, commercial, social and household needs for comprehensive and efficient services" and to provide money remittance and counter services for Government business.

16.1 Corporate Structure, Governance and Operations

An Post is a limited liability company, incorporated under the Companies Acts. One ordinary share is held by the Minister for Finance and the remainder of the issued share capital is held by the Minister for Communications, Energy and Natural Resources. The share capital is reported as €69 million in the 2009 Annual Report and Accounts.

The operations of An Post encompass postal, distribution and financial services. The Company processes and delivers approximately 2.5 million items of mail daily through four major processing hubs and 115 distribution offices. It also provides agency services for Government Departments, the National Treasury Management Agency, An Post National Lottery Company and a range of other commercial bodies through its Post Offices. Approximately 1.7 million customers are served weekly through a retail network of 1,170 Post Offices and 180 postal agents (on a per capita basis, Ireland has one of the larger post office networks in Europe).

An Post's turnover in 2009 was €804 million, including interest income of €13 million.

16.2 Liberalisation of the Postal Sector

An Post's monopoly of postal operations in the Irish market has been increasingly circumscribed by EU-driven reform of the legislative framework leading ultimately to full opening of the postal market to competition by 2011. As a result, the area of the market reserved to An Post has been progressively reduced since 2006 and is now limited to those services for postal packets weighing less than 50 grams. The final step was the transposition of the Third Postal Directive, which was required by 31st December 2010.

The Third Postal Directive (2008/6/EC) provides for full accomplishment of the internal market for postal services, meaning that An Post lost its monopoly of the letter post under 50g in weight. The Directive also contains many provisions relating to universal service pricing and quality of service.

16.3 Universal Service Obligation

An Post is Ireland's designated universal postal service provider under the regulations that transposed the Second Postal Directive. The Universal Service Obligation (USO), which provides, *inter alia*, for the collection and delivery of mail to every address in the state on every working day, continues as a requirement of the Third Postal Directive. It includes services for postal packets and parcels up to 20 kg in weight both domestically and cross-

border. The Postal Services Bill proposes that An Post will continue to be designated for a period of at least seven years. The intention is to offer certainty to An Post, postal service users and the market that the universal service is maintained. ComReg will be required to review the designation of An Post, and provision is made for other postal service providers to be designated in relation to universal services. The Bill's progress was interrupted by the dissolution of the 30th Dáil and it is expected to be reintroduced at Second Stage during the first session of the 31st Dáil.

An Post has to date financed the USO from its own revenues with the benefit of its legal monopoly. It is expected that the company will continue to finance the USO from its commercially-generated revenues after full opening of the postal market. Nevertheless, the Postal Services Bill provides that, where it can be demonstrated that meeting this obligation results in an unfair financial burden for the designated universal provider, the costs will be shared between postal service providers within the scope of the universal service. The Postal Services Bill does not provide for Exchequer funding of the USO.

16.4 Regulation of Postal Services

Postal services have been regulated since 2001. ComReg currently regulates about 64% of An Post's activities (by value) on an *ex ante* basis. A further 10% (by value) are unregulated postal services and 26% are retail services (available mainly through post offices). For the period 1 January to 30 September 2010, An Post's performance in the next day delivery of single piece priority mail was 85%, an improvement on the 84% recorded for the same period in 2009. The target set by ComReg for next day delivery is 94%.

16.5 An Post's Subsidiary Companies

The Company has a number of subsidiaries as follows:

An Post National Lottery	Operation of the National Lottery
Arcade Property Company Ltd	Property development and letting
Post Consult International	Computer software services
Precision Marketing Information Ltd	Provision of marketing data, database services and business directories
Printpost Limited	High volume printing
Post.Trust Limited	Digital certification and security services
Transport Limited	Courier and distribution
An Post Billpost Processing Services Limited	Bill payment processing
An Post GeoDirectory	Commercialisation of a database containing the precise address and location of every residential and commercial property in the state
An Post (NI) Limited	Holding company
GVS Gift Voucher Shop	Retail Gift Vouchers
The Gift Voucher Shop	Retail Gift Vouchers (UK)
PostPoint Services	Transaction Services

One Direct	Insurance business
Air Business Limited	Distribution
Jordan & Co. International Limited	Distribution
The Prize Bond Company	Administration of the Prize Bond Scheme
Postbank Ireland Limited	Banking

One Direct is an intermediary in the distribution of General Insurance, Motor and Home Insurance and Life Assurance; PostPoint provides an electronic transaction and payment service channel through circa 3,000 agents; The Gift Voucher Shop (GVS) offers a range of gift vouchers, gift cards and related services to retail partners, consumers, and corporate clients.

16.6 National Lottery Company

The current lottery licence is held by An Post National Lottery Company and has been since the National Lottery was set up in 1986. The first licence was for 10 years and was subsequently renewed as appropriate. A licence competition was held in 2001, which was won by An Post.

The licence under which the An Post National Lottery Company operates lays down conditions under which it is obliged to operate and covers a wide range of issues including advertising, security, termination etc. The National Lottery was set up for what are collectively known as good causes. The amount generated by the lottery for these causes is known as the surplus. In 2009 the surplus was €263.5 million.

In simple terms the surplus equals:

1. Gross Sales
2. Less
3. Prizes (legislative min 40% but now at 57% of Sales)
4. Operating Expenses (capped at c.17%)
5. Management Fee (capped at €3m)
6. Surplus – Minimum of 26% of Sales (less €3m fee)

The target prize fund is 57% of sales. This percentage is agreed with the Minister for Finance. The licence agreement sets a cap on operating expenses. The percentage operating expenses cap is dependent on the level of turnover and based on current turnover is approximately 17%. In practice, the operating costs are much lower than the cap and have been under 14% since 2003 (with the exception of 2006). The management fee is the only amount payable to the licensee in return for the operation of the National Lottery. The management fee is capped and currently cannot exceed €3 million and is only payable if the licensee meets the terms of the licence.

If the Lottery is run as per the licence, it should return a minimum surplus (at current turnover levels) of 26% of sales (less the €3 million management fee). In practice the Lottery returns 32 – 33% of sales as a surplus. The current licence is due to expire this year.

Recommendation 45: The Review Group recommends that the grant of a new seven year licence to operate the National Lottery should be the subject of an open competition.

16.7 Restructuring

An Post is implementing a strategic plan covering the five-year period 2010 to 2015. Included in this is a target of growing revenue streams and implementing cost containment with significant full time equivalent (FTE) employee reduction being part of this (FTE reductions of 1,975 are planned up to 2015 from the current 9,655 FTE level). A reduction in FTE's of 402 was achieved in 2009 and a further 331 in 2010. In the period under review, the company has been successful in growing revenues but less so at reducing its costs, in particular its labour costs. Employee costs as a percentage of operating costs increased from 66.6% in 2003 to 73.8% in 2009. The accounts show that while average numbers (including postmasters) have fallen by just 5.6%, from 11,945 to 11,271 since 2003, average remuneration over the period has increased by 24.5% to €52,300, including pensions and PRSI. Excluding pensions and PRSI, average personnel costs (employee and postmasters) in 2009 were €45,300, compared with €36,000 in 2003.

16.8 Pay and Pensions

An Post has a number of defined benefit and defined contribution schemes, although the latter account for little more than 1% of total employer contributions, which amounted to approximately €59 million in 2009, equivalent to 13.6% of payroll costs (excluding pensions and social welfare). Employee contribution to defined benefit schemes amounted to €4.4 million in 2009, just under 1% of payroll costs. See Table 16.1 below.

Table 16.1 - An Post Employee Costs (excluding postmasters)

	Average number of employees	Wages and salaries	Employer pension contributions	Average pay (wages/salary)	Employer pension contributions as % of pay	Average pay including employer pension contributions
		€000	€000	€000		€000
Dec-09	10,086	436,465	59,382	43.3	13.6%	49.2
Dec-08	9988	441,554	55,880	44.2	12.7%	49.8
Dec-07	9905	427,993	52,430	43.2	12.3%	48.5

In common with most defined benefit pension funds, An Post's scheme does not meet the minimum funding standard required by the Pensions Board. The company is engaged with employee representatives to facilitate a solution which will meet minimum funding standards requirements and it is intended that an agreed funding proposal will be submitted to the Pensions Board by May 2011.

The company first included pension liabilities in its balance sheet in 2004. Since then, it has, more often than not, reported a deficit in its equity capital and reserves. The downturn

in capital markets during 2008 saw the pension deficit climb from €114 million to €582 million, causing equity capital to decline by over €450 million to a deficit of €198 million. Although the company's pension liabilities declined by €179 million in 2009, equity capital remained in deficit (€39 million).

16.9 Recent Financial Performance

An Post's turnover in 2009 was €804 million down 5.4% on the previous year. Operating costs fell by just 2.5% to €798.5 million, leading to a decline in operating profit from €31.2 million to €5.7 million.

Mail revenue fell sharply in 2009, down 9.5% to €565 million, on foot of a volume decline of 10%. Revenues had already fallen by 1.1% in 2008. However, over the seven-year period from 2002 to 2009, mail revenues, including SDS parcel revenues, have grown by 14.4%. Mail delivery remains by far the largest revenue generator in An Post, accounting for 71% of total revenue (only marginally down on its share of the business in 2002).

The level of An Post's business with government departments stood at €189.4 million in 2009. This consisted of €43.6 million for letters, €15.5 million for elections, €2.8 million for parcels and €127 million for post office counter services (including €49.8 million from NTMA, €4.4 million from prize bonds, €60.2 million from DSFA payments, €12.1 million from TV licence fee collection and €0.28 million from Garda fines).

An Post's cash balance at end 2009 was €290 million compared with €350+ million in 2008. The reduction was accounted for principally by capital expenditure and severance payments. An Post has not paid a dividend since its incorporation and the shareholders' deficit at the end of 2009 means that the company is not in a position to pay a dividend.

For 2010, unaudited accounts show that overall turnover was up marginally on 2009. However, the effect of the downturn is evident in a fall in mails business turnover from €566 million to €552 million. This was offset by an increase in post offices income which benefitted from continued growth in transaction volume throughout the retail network as well as strong inflows into state savings schemes and an increase in other services on foot of new business acquisitions. Operating costs in the An Post Company declined by €26 million (3.4%), from €767 million to €741 million, of which a reduction in staff costs contributed €20 million.

2010 unaudited accounts show the pension deficit has decreased to €368 million at 31 December 2010, reflecting the continued recovery in the value of the scheme assets. Nevertheless, the pension deficit represents a massive claim on An Post's balance sheet. To put it in context, it is equivalent to over 75% of An Post's fixed assets and cash holdings, combined. The 2008 pension deficit exceeded the combined value of An Post's fixed assets and cash holdings. It is worth noting here that the UK Government has had to take responsibility for the pension obligations of Royal Mail in the run-up to the part-privatisation of this business. By way of comparison, in 2009/2010, 76% of Royal Mail's pension obligations were ring-fenced (i.e. covered by assets that cannot be used for any other purpose by the company) compared with 80% for An Post at end-2009 (2010: 83%).

Table 16.2: An Post Pensions

	2009	2008	2007	2006	2005	2004
	€000	€000	€000	€000	€000	€000
Present value of funded pension obligations	2,056,852	2,030,000	2205,300	2,346,226	2,296,770	1,944,535
Fair value of plan assets	-1,653,600	-1,447,700	-2091,000	-2,153,000	-1,988,000	-1,646,000
Deficit for funded plan	40,3252	582,300	114,300	193,226	307770	298,535
Pension assets as % of obligations	80.4%	71.3%	94.8%	91.8%	86.6%	84.6%

A detailed table showing An Post's financial performance in recent years is attached at Appendix 12.

16.10 Outlook

In common with most postal services internationally, An Post faces a difficult trading environment in the coming years. Among the challenges foreseen in the Irish market are:

- A significant drop in postal volumes because of the economic downturn with an allied drop in turnover. Some of this business will not come back to An Post (declining postal volumes is a worldwide phenomenon).

- The continuing threat to both the postal and post office business from electronic substitution.

- Full opening of the postal market to competition from 2011 leading to a possible threat from competitors for large volume business.

- The industrial relations challenge of aligning the company's fixed cost base to declining revenues particularly in the postal business.

16.11 Conclusions and Recommendations

The current economic environment is the most challenging that An Post has experienced since it was established as a state company in 1984. Pressures arise from a decline in its core business, the prospective impact of full postal liberalisation and a continuing relatively high cost base. The significant pension liability also represents an obstacle to any realisation of value through sale of the business.

The company retains a healthy cash balance, but programmes underway for capital expenditure, acquisitions and severance payments will diminish this. Rigorous cost control measures and efficiency improvements should be adopted to mitigate further losses.

Recommendation 46: The Review Group does not consider that An Post is a ready candidate for asset disposal in the near term. Instead, the focus of management must be on ensuring a sustainable future for the company through cost containment.

Section 17: Irish National Stud, Horse Racing Ireland, Bord na gCon

The state supports the thoroughbred horse breeding industry principally through ownership of the National Stud in Kildare and through the operations of the promotional body Horse Racing Ireland, which enjoys state subvention. HRI also owns and operates four of the country's 25 racetracks. Bord na gCon is a statutory body which performs a similar role to HRI for the greyhound industry.

17.1. Irish National Stud

The Irish National Stud (INS) is a state-owned stud farm operating on a holding of approximately 380 hectares at Tully, County Kildare. The National Stud's principal aim is to improve bloodlines in the national bloodstock herd by providing the services of high-quality stallions to as wide a range of breeders as possible. It also offers an equine training programme for young people wishing to enter the bloodstock industry. The INS site is also home to the Japanese Gardens, St. Fiachra's Garden and the Irish Horse Museum. It is also a tourist attraction with in excess of 115,000 visitors annually.

Assets and Liabilities

The INS 2009 Annual Report records net assets of €11.7 million at 31 December, 2009. Tangible assets (land, machinery and vehicles) were valued at €11 million and bloodstock at €2.2 million. Current assets (including debtors) were valued at €5.2 million while creditors and long term liabilities (including pension liabilities) were reported to be €6.8 million.

Financial performance

	2002	2003	2004*	2005	2006	2007**	2008	2009
Surplus/ deficit	**€0.4m**	**€0.5m**	**€4.2m**	**€0.4m**	**€0.3m**	**€9.95m**	**€2.5m**	**€4.3m**
Note: *A change in accounting policy in 2004 impacted significantly on the loss reported. **Exceptional item 2007 – profits boosted by the proceeds from sale of land								

Over the past eight years, INS has reported an annual loss in every year except 2007 when results were boosted by profits from the sale of land.

Outlook

The INS has a strong asset base in land and bloodstock and, despite the operating losses experienced during the last decade, the company is solvent. Nevertheless, reserves in the profit and loss account have been depleted and that account was in deficit by approx €2.4 million at 31 December, 2009. There is a limit as to how long the company can continue to trade at a loss before it will have to raise funds elsewhere either by disposing of assets or by an injection of equity. The Department of Finance has already made equity injections - €1 million in 2000 and €1.1 million in 2006 – to fund investment in bloodstock.

Assessment/Recommendation

The Irish National Stud has played a critical role in the development of the Irish thoroughbred industry since its acquisition by the Government in the late 1940's. At that time the Irish breeding industry was undeveloped and over the following decades, the Stud helped to upgrade Irish thoroughbred breeding significantly. Ireland has since become the premier thoroughbred breeding country in Europe (France and Britain being the other significant European producers). Around 300 thoroughbred stallions were standing at Irish studs for the 2010 season, down from just over 400 during the 2005 to 2007 period. There are close to 100 stallion studs (standing at least one thoroughbred stallion) in Ireland and almost 700 larger broodmare operations housing five or more broodmares.

There are as many as 9,000 farms housing one to four mares, the great majority of which would have other agricultural activities. Thoroughbred mares housed at Irish studs now number about 18,000 down from the 2007/2008 peak of around 20,700. Foals born to thoroughbreds in Ireland peaked at 12,633 in 2007. The figure was 10,167 in 2009. A further decline is believed to have occurred in 2010. The figures are expected by industry observers to bottom out in 2011 at somewhere between 7,500 and 8,000.

Annual foal production in Ireland now exceeds the figures for Britain and France combined, and Ireland produces about 10% of all thoroughbred foals born world-wide. Employment at Irish thoroughbred breeding establishments was estimated at 6,100 full-time equivalents in a survey carried out for the Irish Thoroughbred Breeders Association in 2008 and summarised in Dukes (2009). This figure does not include indirect employment in servicing the industry (veterinary practitioners, feed suppliers, sales companies). In summary, the Irish thoroughbred breeding industry is mature and a world leader. The National Stud no longer plays a critical role in providing access for Irish breeders to the best stallion lines and accordingly the need for retaining such a facility in state ownership should be reviewed.

Recommendation 47: The Review Group recommends that the National Stud be disposed of.

17.2. Horse Racing Ireland

Horse Racing Ireland (HRI) is the national authority for horse racing in Ireland, charged with the overall administration, promotion and development of the industry. It is a state body established under the Horse and Greyhound Racing Act, 2001. HRI is financed by profits from the Tote, funding from the on-course and off-course bookmakers and a statutory-based direct grant from Government (see Box 17.1).

Activities
HRI is responsible for authorisation of racecourses, setting of fixtures, control of on-course bookmakers and the general development and promotion of the Irish thoroughbred horse. Under the 2001 Act, HRI also assumed certain Registry Office functions from the Turf

Club including: issuing of racing passports, handling race entries, making race declarations, and holding and managing the race entry as well as prize money funds. These activities are carried out through three divisions/subsidiaries:

- Racecourse Division, which owns and operates Fairyhouse, Leopardstown, Navan and Tipperary Racecourses;
- Tote Ireland Limited which operates a totalisator at all Irish racecourses including a credit betting service and a betting website;
- Irish Thoroughbred Marketing limited, which is a non-profit making organisation responsible for the promotion of the Irish thoroughbred horse. It is funded jointly by HRI and the Irish thoroughbred industry.

Assets and Liabilities

The HRI Group reported net assets of €73.4 million in the 2008 annual accounts. The net book value of tangible fixed assets (land, buildings, equipment etc.), was €97.2 million, current assets are valued at €48.3 million, creditors (short and long term) plus provisions for liabilities and charges amount to €72.2 million. A significant proportion of HRI's funding is allocated from the Horse and Greyhound Racing Fund (see below). The amount received in the period 2001-2010 amounted to €538.7 million (€54.5 million in 2009, €47.4 million in 2010).

Box 17.1: The Horse and Greyhound Racing Fund

Government support for the horse and greyhound racing industries is provided under the Horse and Greyhound Racing Fund, established under Section 12 of the Horse and Greyhound Racing Act, 2001. In accordance with the Act, 80% and 20% of the monies paid into the Fund each year are distributed between Horse Racing Ireland and Bord na gCon respectively.

From 2001 to 2008 the Fund received a guaranteed level of finance based on excise duty on off-course betting in the preceding year, subject to a minimum level based on the year 2000 amount adjusted for inflation. Shortfalls in the amount generated by excise duty were made up by direct Exchequer subvention. In 2004, the limit of the Fund was increased from €254 million to €550 million and its lifetime was extended for another four years to 2008.

When the Horse and Greyhound Racing Fund was established, the annual income from excise duty collected on off-course betting was in the region of €60 million per annum. Receipts from this source had dropped to €31 million in 2010 and the Exchequer contributed in excess of €31 million to the Fund in 2009 and a further €28 million in 2010.

In the context of the 2011 Budget, the Government announced that the 1% betting duty is to be extended to online betting and that betting exchanges are to be made liable to a "betting intermediary duty" at the rate of 15% of the commission they charge/receive from persons in Ireland

HRI is essentially a regulatory body for the industry. As such, it is not clear that the ownership of racecourses is central to its mission and these might be disposed of as the opportunity arises on favourable commercial terms.

Recommendation 48: The Review Group recommends that HRI should dispose of its racecourse interests if commercially satisfactory terms become available

17.3. Bord na gCon

Bord na gCon is a commercial state body established under the Greyhound Industry Act, 1958 to control greyhound racing and to improve and develop the greyhound industry. The board has wide powers to regulate all aspects of greyhound racing including the licensing of the different tracks, the issue of permits to officials, bookmakers, trainers and the implementation of the rules of racing.

Activities

Bord na gCon's functions are the control, promotion and operation of greyhound racing; the overall control of coursing; the promotion of greyhound exports, the operation of totalisator betting; the regulation of public sales of greyhounds; the making of grants for prize money; the allocation of grants to improve amenities at tracks; the licensing of greyhound tracks and their officials; the authorisation of bookmakers to conduct business at tracks; and the collection of levies on course bets.

Greyhound Tracks

Bord na gCon licences 17 race tracks within the state. It owns and controls nine of these: Shelbourne Park; Harold's Cross; Cork; Tralee; Waterford; Youghal; Limerick and Galway and also has a 51% stake in the Mullingar track. The remaining tracks are owned and operated by private enterprise.

Funding

BnG is funded principally by:

- The Horse and Greyhound Racing Fund (described in Box 17.1) ;
- A percentage deduction from totalisator pools (BnG operates all Tote facilities at all greyhound tracks in the state);
- Gate receipts, programme sales and catering income;
- Exchequer funding (via the Horse and Greyhound Fund);

BnG applies its income in the following ways:

- Supplementing prize money at all levels of greyhound racing;

- Providing development loans and grants to greyhound tracks in order to enable them to improve their facilities;
- Advertising and marketing of the industry at both a national and international level;
- Developing and improving greyhound stadiums;
- Operating a national drug testing laboratory.

Assets and Liabilities

The company reported net assets of €40.5 million in its 2009 annual accounts, the net book value of tangible fixed assets was €62.3 million (land, buildings and equipment), creditors (short and long-term) were €21.2 million.

The amount paid to BnG from the Horse and Greyhound Fund in the period 2001 to 2010 was approximately €135 million (€13.63 million was paid in 2009, €11.85 million in 2010).

Financial performance

Bord na gCon Annual Surplus/Deficit - €000				
2000*	8,061		**2005**	833
2001**	15,823		**2006**	1.802
2002	998		**2007**	4760
2003	(1,733)		**2008**	4636
2004	3,261		**2009**	34

* *the surplus for 2000 includes €3 million proceeds from the sale of property*
****the surplus for 2001includes €8.2 million proceeds from the sale of property***

Similarly to HRI, Bord na gCon is essentially a regulatory body for the industry. It is not clear that the ownership of greyhound tracks is central to its mission and these might be disposed of as the opportunity arises on favourable commercial terms.

Recommendation 49: The Review Group recommends that Bord na gCon should dispose of its interests in greyhound tracks if commercially satisfactory terms become available.

17.4. The Tote Companies

HRI owns the Tote operation at Irish racecourses and Bord na gCon the Tote at greyhound tracks. Trading conditions for both have been difficult in recent years. The Review Group notes that the UK government is in the process of selling the UK Tote which, unlike its Irish counterparts, has high street retail betting operations.

Recommendation 50: HRI and Bord na gCon should dispose of their Tote interests if commercially satisfactory terms become available.

Section 18: Asset Management in Certain non-Commercial Sectors

18.1 Public Sector Land and Property: Ownership Pattern

The **Office of Public Works** (OPW) is the agency that manages most of the state's property portfolio. The book value of OPW's portfolio is shown in the Appropriation Account for end-2009 at €3.173 billion. This is not an estimate of current realisable value. It includes for example valuations of historic public buildings in central Dublin, such as Dublin Castle and Government Buildings, which could not realistically be disposed of and which would have limited commercial value even if they could.

In addition to those properties held centrally by OPW, individual government departments and agencies maintain significant holdings of lands and property throughout the state. The **Department of Defence** holds a diverse range of properties including military barracks, forts, camps, accommodation and land used for military training. Several army properties have been disposed of in recent years and there is an active programme of property rationalisation.

The **Department of Agriculture Fisheries and Food** has, in addition to its network of local and regional offices, a range of properties dispersed throughout the country which includes farms, research centres, laboratory facilities and fishing harbours. The Department's agency **Teagasc** also holds a state-wide property portfolio and a rationalisation and disposal programme is under way.

The **Health Service Executive** (HSE) has an extensive estate of properties and land used for the delivery of health services valued in the HSE accounts at €4 billion. This includes all of the hospital sites and buildings. A programme of surplus asset disposals is under way.

A number of other units of central government, notably the **prisons, courts and embassies,** have property holdings with a book value of almost €1 billion. In the non-commercial state sector the property holdings of the **Industrial Development Authority** are put at almost €250 million.

It must be emphasised that these figures are not reliable indicators of realisable value and most of the properties are not surplus to requirements. A mixture of valuation bases was used in their calculation and they are subject to the qualifications shown on the accounts of each body.

18.2 Recommendations of the Special Group on Public Sector Numbers and Expenditure Programmes

In its 2009 Report, the Special Group on Public Sector Numbers and Expenditure Programmes emphasised the importance of managing the state property portfolio as efficiently as possible. The Group made detailed proposals for generating funds through the disposal of surplus property and recommended giving OPW a more central role in the management of all state property.

18.3 Progress on Foot of the Special Group Report

OPW is prioritising disposal of leased properties where lease breaks fall due in buildings that are costly to maintain and that have the greatest potential to realise savings in the short-term. The staffs accommodated in the leased properties that are being disposed of are moving to other properties which are either owned by OPW or are held on longer leases or leases with terms more favourable to OPW. To this end OPW is preparing a user-friendly inventory of all state property. The National Recovery Plan 2011-2014 also commits OPW to lead a coordinated effort to reduce office rents and review the efficiency of property arrangements across the public sector.

Recommendation 51: The Review Group recommends that there should be one state property management agency and a consolidated register of all state property howsoever owned.

18.4 Possible sale on a phased basis

The prioritisation of disposal of expensive leased property together with the limited revenues likely to be generated from property sales in the current market means that OPW is currently concentrating its efforts on the former rather than on the latter. Of course, where opportunities arise to dispose of surplus owned properties at reasonable prices, these are being availed of.

The vast majority of state assets are used in providing public services. It is not practical or financially advantageous to dispose of property in use, but there are identifiable surplus assets and a phased divestment is being pursued. In the Review Group's view, the best way to proceed is for the Department of Finance to set an annual target for sales with the property holding departments and agencies.

Recommendation 52: The Review Group recommends that an annual target should be set for sales of state property over each of the next five years and the responsibility for this should be given to a single agency.

18.5 International Experience: Ontario State Property Agency

The State of Ontario in Canada has realised substantial proceeds through the privatisation of the operations (but not the ownership) of its property registration agency. Briefly,

- Land ownership information and databases in Canada are controlled by the provinces

- In 1991 the province and some private companies formed a company, Teranet, to implement and operate a computerised land and property information system

- The province disposed of its shares in a series of transactions and granted an exclusive time-limited license to Teranet to operate the system and collect fees and charges. The province has realised approximately €1 billion from these transactions

- The province regulates the operator as to access rules and fees charged.

- The system reverts to the ownership of the province in 2017, subject to continuing rights of access to data for Teranet up to 2066.

It is possible that similar operations here could privatised and, in the opinion of the Group, this option is worth exploring.

Recommendation 53: The Review Group recommends that a study should be completed as soon as is practicable on the means and feasibility of privatising the operations, but not the ownership, of bodies such as the Property Registration Authority.

Section 19: Intangible Assets

The range of intangible assets in state ownership consists of various rights, options, easements, licences etc. to use, exploit, acquire, rent etc. various assets. This includes: permits to emit CO_2; licences to use radio spectrum; and rights to use land or other assets.

The policy issues surrounding the granting of such licences, permits or rights extend, in some cases, beyond the narrow one of realising maximum market value. Nevertheless, there is no reason not to place a value on such intangible assets and to seek an appropriate fee for their use or purchase. The following paragraphs deal with realising value from a number of the assets listed above.

19.1 Permits to emit CO_2

Carbon pricing is one of the instruments chosen as part of the EU's coordinated approach to climate change and Ireland's margin for manoeuvre in this area is to a large extent circumscribed by the EU framework.

Under the EU Emissions Trading Scheme (ETS), large emitters of carbon dioxide within the EU must monitor and report their CO_2 emissions annually to the Commission. An allowance is required in respect of each tonne of carbon emitted; however, emitters currently obtain allowances for free from the relevant EU member state government.

From 2013, the scheme will become a centralised, EU-wide cap on CO_2 emissions with an annually declining trajectory of 1.74% to 2020. Excluding aviation, the cap will deliver an overall reduction of 21% below 2005 verified emissions by 2020. Auctioning will progressively replace free allocation as the main method for allocating allowances to all EU ETS sectors except aviation. The EU power sector will have to buy 100% of allowances from 2013, with temporary exemptions for some power stations in new member states. For energy-intensive industries in the ETS, the final agreement provides for 20% auctioning of industrial emissions permits from 2013, rising to a minimum of 70% in 2020, with a view to reaching 100% by 2027. Sectors and sub-sectors found to be exposed to a significant risk of carbon leakage will continue to receive allowances for free based on ambitious benchmarks. These rules imply that as from 2013 at least half the total number of allowances is expected to be auctioned.

The amount of allowances allocated to each member state is determined as follows:

- 88% of total EU allowances are distributed to member states according to their verified emissions in 2005 or the average for the period of 2005-2007 (whichever is higher). In the case of Ireland, this means about 0.92% of total allowances.

- 10% of allowances are allocated to member states with low income per capita to encourage investment in climate friendly technologies.

- 2% are distributed among member states, which, in 2005, achieved emission reductions of 20% below the levels set for the base year under the Kyoto Protocol.

For aviation, 15% of allowances will be auctioned in 2012 and this proportion will stay the same in subsequent years.

Based on the current state of knowledge and data as supplied by the Environmental Protection Agency, the quantity of the state's allowances can be estimated as follows:

Table 19.1

Tonne 000's									
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Aviation Allowances	475	475	475	475	475	475	475	475	475
EUA Allowances (ETS excl aviation)	-	8,151	8,001	7,852	7,702	7,552	7,403	7,253	7,104

However, considerable uncertainty around the future carbon price makes it difficult to forecast the potential revenues for the Exchequer from auctioning of these allowances. For example, reduced economic activity in the EU will likely lead to lower production (lower emissions and surplus permits) and thus a lower price for carbon than might otherwise be the case.

In addition, while the revised EU ETS Directive states that member states shall determine the use of revenues generated from the auctioning of allowances, it also states that at least 50% of the revenues generated from the auctioning of allowances should be used for a variety of specified climate mitigation and adaptation purposes. These include funding research and development, developing renewable energies, avoiding deforestation and increasing afforestation, forestry sequestration, environmentally safe capture and geological storage of CO_2, encouraging a shift to low-emission and public forms of transport, measures to address energy efficiency and insulation, as well as covering the administrative costs of the ETS. Member states shall be deemed to have fulfilled this mandate if they have in place and implement fiscal or financial support policies, including in particular in developing countries, or domestic regulatory policies which leverage financial support established for these purposes and which have a value equivalent to at least 50 % of the revenues generated from the auctioning of allowances. Member states are required to inform the Commission as to the use of revenues in their regular reports.

19.2 Radio-magnetic Spectrum

Spectrum is an important national resource. Licensing the rights to use certain frequency bands for mobile telecommunications is a source of revenue for the state (see Table 19.2 below):

Table 19.2: Details of Current GSM licences in the 900 MHz band

Licensee Name	Spectrum Assignment	Original Spectrum Access Fee	Annual Rent	Licence Expiry Date
Vodafone	900.2 – 907.4 MHz / 945.2 – 952.4 MHz	€12.69m	€914,222	**15 May 2011**
O2	907.6 - 914.8 MHz / 952.6 - 959.8 MHz	€19.046m	€914,222	**15 May 2011**
Meteor	892.8 - 900 MHz / 937.8 - 945 MH	€14.28m	€914,222	18 June 2015

Commission for Communications Regulation (ComReg)

ComReg is a statutory body and the National Regulatory Authority for the regulation of the electronic communications sector including telecommunications, radio-communications, broadcasting transmission and the postal sector. As such, it has responsibility for ensuring the effective and efficient use of the radio spectrum, and that the best use is made of this valuable but finite natural resource. ComReg's statutory functions and objectives are set out in the Communications Regulation Act 2002. [16]

Forthcoming Expiry of Licences

Mobile phone services are currently delivered using three separate bands: GSM standard services (second generation (2G), voice and text) are propagated in the 900 Mega Hertz (MHz) frequency band and partially in the 1800 MHz band; the more advanced third generation (3G) services (mobile internet etc. in addition to voice and text) are propagated in the 1800MHz and 2100 MHz bands.

As current licences expire over the next two years, the 900 MHz and 1800 MHz bands will be available for reassignment. In addition, the switch-over to digital TV will also release spectrum in the 800MHz Band (currently reserved for analogue broadcasting) which can be reassigned as part of the 'digital dividend' (digital broadcasting requires significantly less spectrum reserved for it than the current analogue broadcasting system). This has potential for a significant once-off return to the Exchequer as well as ongoing revenues from licences. The Minister for Communications has decided that analogue switch-off will occur at the end of 2012. On this basis, the 800MHz band should be available from the beginning of 2013. The switch-over to digital TV will also see broadcasters charged for their use of spectrum for the first time.

ComReg will design and manage the spectrum assignment process, which takes place within an EU legislative framework which has independence of the regulator as an important principle. As demand is likely to exceed supply, Comreg has determined that assignment will be by competitive auction, which is likely to occur during 2011.

[16] Sections 10 and 12, respectively, of the Communications Regulation Act 2002

Methodology for 800MHz/900MHz Reassignment

According to ComReg proposals (outlined in a recent consultation process) the 800/900MHz band will be made available in 13 blocks and the auction will be a two-stage process. A reserve price of €25m has been set for each block of spectrum. Half of this is to be paid immediately upon award of the licences and the other half amortised over the 15-year lifetime of the licences. If all the blocks are taken, up-front fees of at least €162m at a minimum will be available to the Exchequer and an equal amount amortised over 15 years (€10.8m per annum).

19.3 Spectrum used for Broadcasting

Television: Although the Broadcasting Authority of Ireland (BAI, formerly the Broadcasting Commission of Ireland) issues broadcasting licences to commercial operators, historically no charge has been levied on radio and TV broadcasters for the use of spectrum. In line with its policy of charging as the best way to promote efficient use of spectrum, ComReg is taking the opportunity presented by the switch to Digital Terrestrial Television (DTT) to begin charging for spectrum used for digital broadcasting. The BAI will hold one spectrum licence covering all commercial DTT broadcasters (there are, however, none at the present time because of the failure of the tender process to undertake the commercial element of the new DTT service). RTÉ holds its own licence for spectrum for DTT directly from ComReg: this runs for 12 years from 2007 at an annual charge of €144,000, discounted by 50% for the first three years. Analogue television broadcasting retains free use of spectrum until analogue transmission is turned off at end-2012.

Radio: Comreg has issued a licence to RTÉ for digital radio broadcasting. The licence is for 10 years with an annual fee of €20,000 discounted by 50% for the first three years. Under ComReg's licensing regime, BAI would hold a similar licence on behalf of commercial operators but these operators have expressed no interest in moving to digital broadcasting. It appears that analogue broadcasting will continue in the FM band for the foreseeable future. There is no digital dividend to be gained in the FM band because radio broadcasting uses relatively little spectrum and there are no significant alternative technologies competing for its use. ComReg has no plans to charge for the spectrum used for analogue radio broadcasting.

19.4 Spectrum for the Defence Forces, Garda Siochana, and Emergency Services.

No charge is made for use of spectrum bands reserved for the Defence Forces, Gardai and emergency services (the Minister for Defence is exempted under the 1926 Wireless Telegraphy Act). Any such charge would be a circular payment for the Exchequer but it might promote more efficient use of the resource. ComReg does not intend to introduce charging for these bands.

19.5 Fishing Quotas

Irish fisheries policy operates within the framework of the EU's Common Fisheries Policy (CFP). The CFP sets quotas for how much of each species can be caught. Each member state is given a quota based upon the total available and their traditional share of the catch (Total Allowable Catch, TAC). TACs are fixed annually by the council of ministers each

December. Each member state determines how it allocates its quotas to its national fleet and how it regulates quota uptake. The Department of Agriculture, Forestry and Food (DAFF) has the primary responsibility for managing fisheries in Ireland based on CFP and national legislation.

The CFP Review is currently being reviewed. The EU Commission is promoting the mandatory application of Individual Transferable Fish Quotas (ITQs) as a central pillar in the reform. Under ITQs, rights to fish are allocated to particular vessels but these can be transferred and gain a monetary value. The Commission's view is that ITQs have reduced overcapacity, increased profits and given the sector better stability for long-term planning in a number of member states. Under the Commission's proposals, transferability would be limited to the national level, in order to keep 'relative stability' (the complex allocation of catch quotas to member states) intact.

Because fishing rights in Ireland are capacity-based, introducing ITQs would require a change in the way fishing rights are currently managed. Government policy is to oppose this change, in order to avoid the concentration of fishing rights in the hands of a few large (possibly foreign-owned) companies. Indeed, there is evidence from other European countries where ITQs have been introduced that fishing rights can become concentrated in few hands. Transferable quota rights also result in high entry costs for new fishermen. The initial allocations for quota-based systems are usually based on historical track record. Once rights have been allocated, it can become difficult for others to become a fisherman since new entrants have to buy a vessel and all the rights (licence, quota allocation). However, markets also evolve even in the case of non-transferable rights. The current Irish system where capacity has to be bought means that the value of the quota right is capitalised into the value of the vessel exiting the fleet and this also acts as a barrier to new entrants.

Auctioning these rights would ensure that the resource rent accrues to the taxpayer rather than to private individuals. Auctioning fishing rights has the further advantage that it gives an incentive to minimise the total cost, and thus the use of resources, in catching fish. An unfettered auction in which the most efficient trawler crews bid the highest amounts for fishing rights could result in rights being accumulated by the largest boats. If this were deemed an undesirable outcome, there are various ways to address this concern, such as reserving part of the auction for different target groups. Another promising avenue might be to auction, not ITQs but rather the right to catch the monthly fish allowance under the TAC.

Recommendation 54: The Review Group recommends the introduction of auctioning of quotas into Irish fisheries policy as part of the forthcoming reform of the Common Fisheries Policy.

19.6 Miscellaneous Licences

The Group believes that fees should apply for state permits in all cases. These should be reviewed regularly to ensure that they cover administrative costs at least. Where the

exercise of a permit confers a marketable property right, the fee should be related to full market value.

19.7 Recommendation

Recommendation 55: The Review Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.

Section 20: Conclusions and Recommendations

The Review Group has purposely refrained from providing valuations of various state companies as this is a matter for the market and for investors in the final analysis. We have also not been prescriptive on how or when state assets might be disposed off. In many cases, any sale will take time.

Our basic message is that, given the over-borrowed nature of the state's balance sheet, asset disposal is inevitable. This should take place on a planned, phased basis to maximise value to the state from any such disposal. Any programme of sales should balance the longer term strategic needs of the state with the short-term urgent demands for cash and should do so in a prudent manner.

For ease of reference, the recommendations made in each section are set out below distinguishing between general economic, specific state-body and governance recommendations.

Section 2: The Policy Context of Asset Sales	
1.	Any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value-enhancement of privatised entities through weak regulatory arrangements.
2.	Any privatisation legislation involving companies operating critical infrastructures in Ireland should include explicit provision for resolution or step-in powers. The United Kingdom rules provide a possible template.
Section 3: Market Design and Regulatory Reform	
3.	The objectives of economic regulatory agencies need to incorporate, explicitly and on a common basis, the minimisation of cost to the rest of the economy.
4.	A comprehensive review of the legislation governing economic regulatory agencies should be undertaken and necessary legislative amendments enacted prior to any state disposals.
5.	The Department of Enterprise, Trade and Innovation, which already has responsibility for competition policy, should become the parent department for all economic regulatory bodies, and should take responsibility for their supervision and performance measurement and for legislative updating.
6.	Levies on regulated entities, including license fees and other miscellaneous charges, should accrue directly to the Exchequer, and, in order to strengthen their independent

	role, the operating budgets of economic regulatory bodies should be a charge on the Central Fund.
7.	Central government departments responsible for policy in areas such as energy and transport should ensure that adequate internal resources are made available for the task and should avoid excessive reliance on regulatory agencies and outside consultants.
8.	Economic regulators should be relieved of responsibility for extraneous administrative functions.
9.	There should be a single regulator for the broadcasting and telecommunications (including postal) industries.
10.	The Health Insurance Authority should be absorbed by the Financial Regulator.
11.	In the event that a customer-financed water industry structure emerges, this monopoly should be regulated through expanding the role of the Commission for Energy Regulation rather than through the establishment of yet another sector regulator.
12.	A comparison should be undertaken of pay and conditions in all commercial state companies with those elsewhere in the Irish labour market and in competitor countries, in particular in the UK, in order to assure that the cost structures in these companies are competitive with their counterparts. The outcome of this review should determine the approach of economic regulators to costs allowable in tariff determination.
13.	Sector regulators should seek explicit justification of mass market advertising budgets from regulated monopolies and should disallow from cost recovery any element they deem commercially unnecessary.
14.	The legislation governing economic regulatory bodies should permit them to grandparent certain regulatory provisions for pre-existing operators when regulatory policy changes.
Section 4: The Commercial State Companies in Aggregate	
15.	The regular payment of a reasonable dividend to the shareholder is good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.
16.	The exercise of the shareholder function in all state commercial companies should be centralised in a specialised unit located in the Department of Finance. This unit should also take responsibility for whatever asset disposal programme is decided on by Government.

Section 5: The Policy Framework for State Energy Companies	
17.	Policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.
18.	If security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.
19.	Carbon emission targets should be pursued on a least-cost basis and current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.
20.	An early review, before divestment, should be undertaken of the system of energy regulation in Ireland.
Section 6: Electricity Supply Board (ESB)	
21.	The transmission grid, including the high-voltage system in Northern Ireland, should be transferred to Eirgrid and retained in public ownership as a regulated monopoly. The transfer prices for these assets should reflect their regulated asset valuations. The Review Group notes that unbundling is not an end in itself but a policy designed to increase competition and efficiency in the industry.
22.	All hydro units should be transferred to EirGrid and should be operated by them as regulated assets.
23.	The ESB should be required to dispose of further generating capacity in Ireland, the units to be sold to be selected by the CER. This should happen regardless of any ESB ownership decision. No acquirer should be permitted to bid for capacity which would bring its Irish market presence above approximately 2,000MW. There should be no regulatory inhibition to generators owning supply businesses, subject to competition law.
24.	The ESB's energy supply business, electricity distribution business, generation assets (after some divestment), international investment, and consulting and engineering businesses should be sold as a single entity.
25.	Should the ESB be retained in state ownership, the Group recommends that, in order to assist in deleveraging the state balance sheet, all of its overseas interests should be disposed of and there be no further expansion outside the island of Ireland.

Section 7: EirGrid and the High-Voltage Electricity Transmission Grid	
26.	The Group recommends that EirGrid's Grid25 targets be re-considered in the light of demand developments and the Group's recommendations regarding reduced wind penetration.
Section 8: Bord Gáis Éireann and Gas Industry Structure	
27.	The Group recommends that BGÉ's regulated transmission and interconnector assets should be retained in state ownership. Consideration should be given to the establishment of a distinct state body to own and operate these assets and also to the option of merging these operations into EirGrid.
28.	The Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, be privatised as a single entity.
Section 9: Seaports and Port Industry Structure	
29.	The state-owned ports, including Rosslare, should be restructured into several competing multi-port companies, built around Dublin, Cork and Shannon Foynes. The Competition Authority should be consulted concerning the amalgamation process.
30.	Privatisation of some or all of the ports should be considered, ideally after the recommended restructuring. The adequacy of competition in the sector on an all-Ireland basis should be reviewed prior to privatisation and suitable regulatory arrangements instituted, if deemed necessary.
Section 10: Bord na Móna	
31.	The Group recommends that the Government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.
Section 11: Coillte Teoranta	
32.	The state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.
33.	The replanting obligation attached to Coillte and grant-aided forestry should be discontinued.

34.	In order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts to reward forest owners for the value of carbon sequestered by new forests after 2013. For farmers in receipt of the current range of financial incentives, the Group recommends that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.
Section 12: State Airports and Aer Lingus	
35.	As an exception to its general recommendation on dividend policy, the Review Group recommends that no dividend be sought from DAA for the present.
36.	The DAA should dispose of its non-core assets, primarily overseas, as a means of substantially reducing its debt exposure. The timing of this deleveraging programme should be determined by the company board. In due course, privatisation of the airports should be considered.
37.	Whether DAA's airport assets are privatised or retained in state ownership, the regulatory arrangements need to be reviewed and in particular the scope for political intervention in capital investment decisions curtailed.
38.	The state's shares in Aer Lingus should be disposed of as soon as is opportune.
Section 13: The Irish Aviation Authority	
39.	The Government should explore the possibility of merging Irish air navigation operations with NATS and possibly other North-West European services. In the event of a merger, the state's share should be disposed of for the benefit of the Exchequer.
Section 14: Coras Iompair Éirean (CIE)	
40.	CIE's tours business, Rosslare port, Expressway and other bus businesses competing directly with private operators should be disposed of. Policy should seek to limit the level of public subsidy through greater efficiency and the amount of capital to be invested in further transport projects should be severely constrained. The Review Group recommends that the privatisation of all or part of Dublin Bus should be considered in due course, but only after government has decided on a model for competition in the Dublin bus market.
Section 15: Public Service Broadcasters (RTÉ and TG4)	
41.	The portion of the license fee allocated to the Broadcasting Fund, currently just 7%, should be increased substantially, in order to better equalise conditions of competition

	between RTÉ and private broadcasters.
42.	In the interests of transparency, the Group recommends that RTÉ's provision of Irish language content to TG4 under the provisions of the Broadcasting Acts is transacted on a commercial basis, and funded by TG4 from within its revenues. The respective Exchequer support of each broadcaster should be adjusted accordingly to take account of the transaction.
43.	RTÉNL should be disposed of as a regulated entity with appropriate safeguards in place to ensure its availability to the state and fitness for purpose in the event of a national emergency.
44.	In line with the position taken by the Group generally on allocation of radio frequency spectrum, the Group recommends that rights to use spectrum for broadcasting purposes are allocated using a market-based approach that promotes the most efficient management and use of the spectrum resource.
Section 16: An Post and the Postal Market	
45.	The grant of a new seven year licence to operate the National Lottery should be the subject of an open competition.
46.	The Group does not consider that An Post is a ready candidate for asset disposal in the near term. Instead, the focus of management must be on ensuring a sustainable future for the company through cost containment.
Section 17: Irish National Stud, Horse Racing Ireland, Bord na gCon	
47.	The National Stud should be disposed of.
48.	HRI should dispose of its racecourse interests if commercially satisfactory terms become available.
49.	Bord na gCon should dispose of its interests in greyhound tracks if commercially satisfactory terms become available.
50.	HRI and Bord na gCon should dispose of their Tote interests if commercially satisfactory terms become available.
Section 18: Asset Management in Certain non-Commercial Sectors	
51.	The Group reiterates the proposal of the Special Group on Public Service Numbers and Expenditure Programmes that there should be one state property management agency and a consolidated register of all state property howsoever owned.

52.	The Group recommends that an annual target should be set for sales of state property over each of the next five years and the responsibility for this should be given to a single agency.
53.	The Group recommends that a study should be completed as soon as is practicable on the means and feasibility of privatising the operations, but not the ownership, of bodies such as the Property Registration Authority.
Section 19: The State's Intangible Assets	
54.	The Review Group recommends the introduction of auctioning of quotas into Irish fisheries policy as part of the forthcoming reform of the Common Fisheries Policy.
55.	The Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.

Appendix 1 – State Commercial Companies: Employee Remuneration

	Avg. no. of employees	Wages & salaries	Employer pension contributions	Avg. pay (wage/salary)	Employer pension contributions as % of pay	Avg. pay incl employer pension contributions
		€000	€000	€000		€000
ESB						
Dec-09	7,783	587,885	146,063	75.5	24.8%	94.3
Dec-08	7,870	598,480	99,565	76.0	16.6%	88.7
Dec-07	7,856	569,933	88,010	72.5	15.4%	83.8
Bord Gais (excl. share-based payments)						
Dec-09	1,006	67,700	10,011	67.3	14.8%	77.2
Dec-08	911	61,380	8,703	67.4	14.2%	76.9
Dec-07	854	55,088	8,052	64.5	14.6%	73.9
Bord na Móna (excl. share based payment)						
Mar-10	2,136	95,733	4,523	44.8	4.7%	46.9
Mar-09	2,064	95,849	6,687	46.4	7.0%	49.7
Mar-08	2,035	91,300	6,030	44.9	6.6%	47.8
Eirgrid - incl. staff on capital projects (2007/2008 costs annualised)						
Sep-09	305	25,423	4,141	83.4	16.3%	96.9
9 mths-Sep-08	251	21,517	2,609	85.7	12.1%	96.1
Dec-07	225	17,243	2,188	76.6	12.7%	86.4
DAA (excl. exceptional pension costs)						
Dec-09	3,103	153,115	7,212	49.3	4.7%	51.7
Dec-08	3,237	161,237	6,593	49.8	4.1%	51.8
Dec-07	3,163	156,606	7,592	49.5	4.8%	51.9
IAA (incl. student air traffic controllers)						
Dec-09	672	64,224	16,643	95.6	25.9%	120.3
Dec-08	666	61,106	26,005	91.8	42.6%	130.8
Dec-07	658	56,100	24,944	85.3	44.5%	123.2
Dublin Port						
Dec-09	157	10,665	6,706	67.9	62.9%	110.6
Dec-08	166	11,555	13,645	69.6	118.1%	151.8
Dec-07	193	12,154	52,211	63.0	429.6%	333.5
CIE						
Dec-09	11,463	563,056	55,400	49.1	9.8%	54.0
Dec-08	11,848	581,818	52,100	49.1	9.0%	53.5
Dec-07	11,701	545,563	39,200	46.6	7.2%	50.0

	Avg. no. of employees	Wages & salaries	Employer pension contributions	Avg. pay (wage/salary)	Employer pension contributions as % of pay	Avg. pay incl employer pension contributions
		€000	€000	€000		€000
An Post (excluding postmasters)						
Dec-09	10,086	436,465	59,382	43.3	13.6%	49.2
Dec-08	9988	441,554	55,880	44.2	12.7%	49.8
Dec-07	9905	427,993	52,430	43.2	12.3%	48.5
RTÉ						
Dec-09	2,297	137,240	13,426	59.7	9.8%	65.6
Dec-08	2,338	150,168	11,204	64.2	7.5%	69.0
Dec-07	2,319	143,050	11,179	61.7	7.8%	66.5
Coillte						
Dec-09	1,170	53,407	21,176	45.6	39.7%	63.7
Dec-08	1,250	59,066	6,745	47.3	11.4%	52.6
Dec-07	1,269	62,988	11,435	49.6	18.2%	58.6
Aggregate State Commercial Sector (EirGrid data for 2007/2008 has been annualised)						
Dec-09	40,178	2,194,913	344,683	54.6	15.7%	63.2
Dec-08	40,589	2,243,730	289,736	55.3	12.9%	62.4
Dec-07	40,178	2,138,018	303,271	53.2	14.2%	60.8

Appendix 2 – International Experiences with Forest Privatisation

Forest ownership varies widely, the pattern often reflecting political histories. In Europe, forest land is evenly divided between public and private ownership, but with significant national differences. High levels of public ownership are common in South-eastern Europe and Eastern Europe ranging up to 90-100%, while about two thirds of the forest area is in private hands in the north-western and centrally located countries of the European Union. Over four-fifths of private forests are owned by individuals and families (farm forests). Around 5% is owned by private wood processing enterprises, while the remaining 13% is owned by private institutions, including religious and educational institutions as well as pension or investment funds (Schmithüsen and Hirsch, (2008)).

A number of countries have privatised some or all of their forests, including New Zealand, South Africa and Australia (Nelson, (2008)).

New Zealand is a relevant case study because the impetus to privatise the previously corporatized state-owned New Zealand Forestry Corporation arose in the context of a high public sector debt and growing debt service burden. The Minister for Finance Roger Douglas announced the government's intention to sell the state forests in 1998. A forestry working group was established comprising government officials and private sector consultants to dispose of the forest assets. They recommended that only the timber (cutting rights) should be sold and not the underlying land. To assist the sale, the forest estate was split up into 90 sale parcels ranging from 51 hectares to hundreds of thousands of hectares. The sale of state forests between 1990 and 1996 raised approximately NZ$3.5 billion (Kant, (2008)). A factor assisting privatisation was that most forests were commercial without conservation or significant multiple use values (McEwen, (no date)).

In the late 1990's, South Africa had approximately 1.5 million hectares of commercial plantations (52% of pine and 39% of eucalyptus). In 2000, prior to the starting of the process of privatization, 30% of the plantation forest was owned by the state, with 47% owned by two large forest companies (Sappi and Mondi), and the remainder divided between small private companies and farmers. Its 1996 forest policy drawn up after the end of apartheid in 1994 called on the government to withdraw from ownership and management of state plantations, in order to free state resources for more important needs and improve the overall productivity and efficiency of operations. The government wanted to ensure that privatization benefited the previously disadvantaged black population, through increasing its ownership and control of plantations, providing employment opportunities and securing access to forest goods and services for livelihood security. Since 2001, a total of nearly 250,000 ha of state-owned plantations have been transferred to the private sector.

The approach adopted was to divide the forestry assets into seven 'packages', each representing a logical business unit, and a 'Special Purpose Vehicle' (SPV) was created for each package. It was decided that 25% shares in each SPV would be held by non-private agencies including the government (10%), workers (9%), and the National Empowerment Fund (6%), with the remaining 75% sold to the private sector (of which at least 10% needed to be black owned). The remaining state-owned South African Forestry Company is

due for privatisation but progress is held up by legal uncertainties surrounding land claims on state land.

Under the South African approach the ownership of the land under plantations remained with the state and investors were offered the use rights only through a long-term lease. The New Zealand Crown Forest License was the template for the original lease. The lease included (i) a lease duration of minimum 70 years; (ii) payment of market-related rent to use the land where the value of standing trees was not included in the calculation of the land rent; (iii) full undisturbed possession of the land subject to Forest Act provisions that allows public access for cultural, recreational, and spiritual purposes; (iv) the license covers all activities, including silvicultural, ecotourism, hunting, and quarrying, and the lease holder may issue licenses to third parties for some of these activities.

Australia also has experience of forest privatisation. In the Australian State of Victoria in 1993, the government established the Victorian Plantation Corporation as an entity within the Department of Conservation and Natural Resources. This corporation functioned as a profit centre within the Department with the eventual goal being its sale to private interests. The government created a new license, granting the right to grow trees in perpetuity, but retaining a fee simple interest in the land itself. The right would only be invalidated if there were a change in land use from forestry. The corporation was then offered for sale with existing supply contracts in place and was purchased by Hancock Victoria Plantations, a subsidiary of the American Hancock Timber Resources Group Ltd. for A$603 million or c. €430 million. The main asset was a 99-year licence to manage, harvest and re-grow plantation timber on approximately 204,000 hectares. This equates to a price of c. €2,100 per hectare. Under the 99-year licence, the Queensland Government retains ownership of the underlying land. Conditions of the sale include a commitment to plant 20,000 hectares of eucalypt hardwood plantations between 2010 and 2025 and protection of public access to forests. The Victoria government's expectation was that by drawing in outside capital it would assist in attracting other investors into forestry and thereby help it meet its policy goal of trebling the area of plantations by 2020 (with this to take place on private land).

In Britain, privatisation policies were first introduced in 1979 and the sale of publicly-owned forests began in the early 1980s. Forests selected for sale were primarily chosen where their disposal would rationalise the management of state forests. It was mostly remote conifer plantations, very small forests or areas difficult to manage in some way that were prioritised for sale. Forests providing a high level of non-timber benefits were not sold due to concerns about the loss of public access. The government set revenue targets from sales of forest and the area to be sold each year (£150 million and 100,000 hectares by the year 2000). By March 1997, the Forestry Commission had sold 66,000 hectares (out of a total of 900,000 hectares before the sales started) and raised £75 million.

In 1994 the government commissioned a review to examine the case for privatizing state plantations. This report, though not published, recommended against the sale of state plantations for various reasons (Grundy, 2003). Sale of the plantations to one or a few buyers would be problematic. Because of the sheer scale of the transaction, it was feared there would be few bidders. The wood processing industry was opposed as it preferred to deal with the supplier it knew rather than face one or a few new powerful players in the wood market. Some companies considered they might have to bid themselves to avoid losing security of wood supply, which would divert capital they could use more profitably

developing their businesses. While the sale of plantations singly or in small groups would be more feasible, and the market was already developed, it would obviously take a very long time to sell 1 million hectares.

In October 2010, the UK Environment Secretary announced plans to dispose of most of the 250,000 ha overseen by the Forestry Commission in England. The UK government decided against an open market sale of the whole public forest estate. It proposed to sell or lease heritage and amenity forests to charitable organisations and community or civil society groups. It proposed to lease large-scale commercial forests to commercial operators – the option of leasing rather than outright sale was preferred because it would better ensure that these forests would continue to provide public benefits through lease conditions. It also proposed an increased sale programme targeted at woodland with limited added value in terms of public benefits. Following a widespread campaign of opposition, the UK government announced in February 2011 that it was reversing this decision (House of Commons Library (2011) reviews the recent UK experience). However, a separate sale of 40,000 hectares of Forestry Commission land announced in the Spending Review is still planned once additional protections on access and biodiversity are put into place. This sale may raise £75-100 million.

In Scotland the government proposed in 2008 to lease 100,000 hectares or 25% of the public forest estate managed by Forestry Commission Scotland to private companies with a view to raising £200m to reinvest in new planting. The proposal was dropped in March 2009 following consultation on various grounds including concerns over public access, the possible diversion of the funds raised away from forestry, future marketing arrangements for timber and job security.

These experiences suggest that the sale of forestry assets is feasible, although they also highlight various issues that need to be addressed. In general, the preference has been to sell a management and felling licence but to retain ownership of the land in the hands of the state. Disposal is more complicated where there are multiple use objectives in forestry management, most obviously recreation and public access in the UK. It has been argued that the loss of a multi-use approach to forestry is a long-term legacy of these reforms, and environmental groups tend to prefer public ownership because they fear commercial considerations would dominate private sector management. The wood processing industry is often opposed because it prefers to deal with the supplier it knows, and potential market structure and market power issues need to be addressed. In general, disposal often stretches over a period of time and there may be relatively few interested buyers. We take these lessons into account in our recommendations regarding Coillte in Section 11.

Appendix 3 – ESB Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP
Income Summary ESB	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Revenue	**3,014,985**	**3,488,352**	**3,461,021**	**3,087,504**	**2,756,213**	**2,457,706**	**2,341,803**	**2,150,841**
EBITDA	**813,877**	**752,857**	**927,430**	**729,736**	**663,738**	**511,405**	**622,351**	**480,824**
Depreciation	441,757	390,052	393,067	382,006	346,963	282,159	286,455	244,651
Amortisation of intangibles	52,215	49,679	40,487	33,491	30,895	12,729	15,170	1,318
Amortisation of grants	-30,199	-26,744	-29,332	-22,293	-13,677	-7,331	-4,876	-1,765
Operating profit before gain on asset disposal	**350,104**	**339,870**	**523,208**	**336,532**	**299,557**	**223,848**	**325,602**	**236,620**
Other income							28,351	13,805
Share of joint ventures after-tax profits	61,729	62,903	47,050	19,674	31,294	31,690		
PBIT before exceptionals	411,833	402,773	570,258	356,206	330,851	255,538	353,953	250,425
Net interest payable	-86,800	-100,176	-87,790	-90,163	-104,747	-111,919	-58,216	-37,608
Other finance costs less capitalised interest	9,742	1,267	-2,368	-2,061	14,237	39,202	6,371	-16,296
Net interest & other finance costs	-77,058	-98,909	-90,158	-92,224	-90,510	-72,717	-51,845	-53,904
Profits on disposal of generation assets	265,004							
Profit before tax	**599,779**	**303,864**	**480,100**	**263,982**	**240,341**	**182,821**	**302,108**	**196,521**
Tax	-19,761	-30,566	-48,368	-41,364	957	-25,401	-53,422	-37,016
Minorities	-120	-279	84	-150	-109	-118	1	-125
Earnings	**579,898**	**273,019**	**431,816**	**222,468**	**241,189**	**157,302**	**248,687**	**159,380**
Earnings before disposal gain	**314,894**	**273,019**	**431,816**	**222,468**	**241,189**	**157,302**	**248,687**	**159,380**
Summary Balance Sheet ESB								
Property, plant & equipment	7,628,787	6,978,384	6,385,576	6,000,493	5,563,626	5,501,558	4,725,100	3,779,643
Intangible assets	330,152	317,178	223,225	383,999	246,611	131,307		
Investment in joint ventures	18,650	117,118	71,742	30,418	40,845	179,062	194,287	193,423
Inventories	145,739	144,727	160,722	150,822	246,612	190,135	179,725	178,586
Trade & other receivables	684,292	775,483	630,565	603,412	607,763	591,175	508,480	481,216
Less current trade & other payables	623,263	618,725	629,993	484,186	550,651	444,896	568,009	498,410
Working Capital	**206,768**	**301,485**	**161,294**	**270,048**	**303,724**	**336,414**	**120,196**	**161,392**
Other assets less other curr. liabilities	271,167	-755,294	114,467	-332,775	-271,181	-186,161	6,162	8,437
Capital employed	**8,455,524**	**6,958,871**	**6,956,304**	**6,352,183**	**5,883,625**	**5,962,180**	**5,045,745**	**4,142,895**
Equity capital & reserves	4,032,150	3,226,543	3,364,985	2,734,859	2,534,212	2,463,118	2,298,020	2,120,088
Minority interests	1,745	1,861	645	729	962	853	566	567
Net debt / (cash)	2,230,704	2,087,862	1,796,543	1,960,211	1,846,625	2,298,894	1,602,806	902,362
Deferred income & Gov. grants	692,578	657307	585410	490,548	377,249	254,899	155,805	95,368
Pension liabilities	515,707	307,005	325,693	327,762	339,176	270,641		
Net deferred tax	345,940	264,297	283,996	238,025	217,045	233,585		
Other long-term liabilities	636,700	413,996	599,032	600,049	568,356	440,190	988,548	1,024,510
Capital Employed	**8,455,524**	**6,958,871**	**6,956,304**	**6,352,183**	**5,883,625**	**5,962,180**	**5,045,745**	**4,142,895**

Cash Flow Summary ESB	2009 Dec. IFRS €000	2008 Dec. IFRS €000	2007 Dec. IFRS €000	2006 Dec. IFRS €000	2005 Dec. IFRS €000	2004 Dec. IFRS €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
EBITDA	813,877	752,857	927,430	729,736	663,738	511,405	622,351	480,824
Change in working capital	64,462	-216,631	100,948	-21,905	44,167	-86,783	-23,485	131,435
Other operating cashflow	-232,295	335,783	-23,789	-112,748	-12,471	50,413	-68,135	-48,924
Cash generated from operations	**646,044**	**872,009**	**1,004,589**	**595,083**	**695,434**	**475,035**	**530,731**	**563,335**
Capital expenditure (property, plant & equipment)	-872,426	-952,265	-835,659	-768,992	-935,488	-1,075,777	-1,234,862	-835,079
Disposals	13,839	2,796	28,943	68,854	69,698	28,167	12,864	1,162
Gov. grants	73,928	102,025	152,483	136,184	134,300	106,425	78,359	80,454
Net capital expenditure	-784,659	-847,444	-654,233	-563,954	-731,490	-941,185	-1,143,639	-753,463
Operating cashflow	-138,615	24,565	350,356	31,129	-36,056	-466,150	-612,908	-190,128
Dividends from associates/ jv's	14,713	15,925	5,556	8,321	48,145	32,232	15,189	4,637
Net interest	-89,917	-97,359	-82,902	-85,086	-103,906	-100,952	-52,611	-37,272
Tax	-27,748	-18,827	-65,327	-33,048	-27,226	-29,324	-24,044	-19,882
Free cash flow	**-241,567**	**-75,696**	**207,683**	**-78,684**	**-119,043**	**-564,194**	**-674,374**	**-242,645**
Dividends paid	-267,284	-129,486	-66,722	-72,389	-77,413	-67,118	-19,704	-20,000
Acquisitions & investments (intangibles) - net	67,249	-36,267	-60,885	-48,357	-26,455	-66,850	-7,000	-16,254
Disposal of businesses	440,000			31,920	136,494	10,000		9,537
Other	-6,742	-49,870	83,592	53,924	538,686	-7,926	634	-1,993
Change in net debt\(cash)	**-142,842**	**-291,319**	**163,668**	**-113,586**	**452,269**	**-696,088**	**-700,444**	**-271,355**

Memo Items								
Pensions								
Present value of funded pension obligations	5,008,691	5,004,681	5,182,466	5,416,310	4,884,093	4,230,795	3,608,805	3,147,997
Fair value of plan assets	-2,824,000	-2438000	-3830027	-3,784,262	-3,336,000	-2,801,014	-2,541,008	-2,243,064
Deficit for funded plan	2,184,691	2,566,681	1,352,439	1,632,048	1,548,093	1,429,781	1,067,797	904,933
Unrecognised net actuarial gains/ (losses)	-1,668,984	-2259676	-1026746	-1,304,286	-1,208,917	-1,159,140		
Balance Sheet pension liability	515707	307005	325693	327762	339176	270641		
Analysis of debt								
Loans	2,230,704	2,171,072	1,849,861	1,997,544	1,913,574	2,373,672	2,169,314	1,022,861
Cash balances	0	83,210	53,318	37,333	66,949	74,778	566,508	120,499
Net debt/(cash)	2,230,704	2,087,862	1,796,543	1,960,211	1,846,625	2,298,894	1,602,806	902,362
Employee data								
Total employee costs	1,026,977	751,032	730,735	769,385	808,498	804,714	644,342	610,404
Average number of employees	7,783	7,870	7,856	7,823	8,292	9,289	9,587	9,798

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP
Ratios ESB								
Profitability								
EBITDA margin %	27.0	21.6	26.8	23.6	24.1	20.8	26.6	22.4
Operating margin %	11.6	9.7	15.1	10.9	10.9	9.1	13.9	11.0
Activity								
Revenue/avg. capital employed (excl. JV's)	0.39	0.51	0.52	0.51	0.47	0.46	0.53	
Revenue/avg. fixed assets	0.41	0.52	0.56	0.53	0.50	0.48	0.55	
Return on investment								
Avg. ROCE (pretax & excl. JV's & disposal gain) %	4.6	5.0	7.9	5.5	5.2	4.2	7.4	
Avg. ROE (after tax) %	16.0	8.3	14.2	8.4	9.7	6.6	11.3	
Avg. ROE (after tax) excl gains on disposal %	8.7	8.3	14.2	8.4	9.7	6.6	11.3	
Growth								
Revenue %	-14	1	12	12	12	5	9	
EBITDA %	8	-19	27	10	30	-18	29	
Pensions								
Retirement benefit assets/ R.B. liabilities %	56	49	74	70	68	66	70	71
Financial/General								
EBITDA interest cover (x)	9.4	7.5	10.6	8.1	6.3	4.6	10.7	12.8
Group interest cover (x)	4.7	4.0	6.5	4.0	3.2	2.3	6.1	6.7
Debt/ EBITDA (x)	2.7	2.8	1.9	2.7	2.8	4.5	2.6	1.9
Debt/ equity %	55	65	53	72	73	93	70	43
Debt/ (debt + equity) %	36	39	35	42	42	48	41	30
Debt/ fixed assets %	29	30	28	33	33	42	34	24
Gross capex/ depreciation (%)	197	244	213	201	270	381	431	341
Tax rate adj. for JV's (%)	4	13	11	17	0	17	18	19
Dividend/ earnings (previous year) %	30	30	30	30	49	27	12	
Employees								
Employee costs as % of revenues	28	17	16	19	23	26	21	22
Revenue per employee (€000)	387	443	441	395	332	265	244	220

Appendix 4 – EirGrid Financial Data

	2009	2008 (9mt)	2007	2006
	Sep.	Sep.	Dec.	Dec.
	IFRS	IFRS	IFRS	IFRS
Income Summary EirGrid	**€000**	**€000**	**€000**	**€000**
Revenue	410,694	282,707	290,432	139,913
EBITDA	**25,022**	**18,128**	**14,459**	**14,759**
Depreciation	15,645	9,567	5,631	2,193
Operating profit	**9,377**	**8,561**	**8,828**	**12,566**
PBIT	**9,377**	**8,561**	**8,828**	**12,566**
Net interest & other finance costs	27	2,429	3,119	904
Pretax profits before exceptionals	9,404	10,990	11,947	13,470
Profit before tax	**9,404**	**10,990**	**11,947**	**13,470**
Tax	-784	-1,774	-2,532	-1,976
Earnings	**8,620**	**9,216**	**9,415**	**11,494**
Summary Balance Sheet EirGrid				
Property, plant & equipment	110,406	74,273	56,231	29,337
Intangible assets	25,739			
Trade & other receivables	10,899	24,650	29,966	2,603
Less current trade & other payables	79,775	61,469	61,447	25,805
Working Capital	**-68,876**	**-36,819**	**-31,481**	**-23,202**
Other assets less other curr. liabilities	17,464	1,235	-12,850	9,256
Capital employed (excludes def. tax)	**84,733**	**38,689**	**11,900**	**15,391**
Equity capital & reserves	90,332	78,959	73,886	60,713
Net debt / (cash)	-30,030	-61,792	-78,502	-63,758
Pension liabilities	22,288	24,555	18,487	20,962
Net deferred tax	739	-3,033	-1,971	-2,526
Other long-term liabilities	1,404			
Capital Employed	**84,733**	**38,689**	**11,900**	**15,391**

Cash Flow Summary EirGrid				
EBITDA	25,022	18,128	14,459	14,759
Change in working capital	6,854	-10,441	32,721	11,434
Other operating cashflow	772	687	1,133	-765
Cash generated from operations	**32,648**	**8,374**	**48,313**	**25,428**
Net capital expenditure	-27,538	-27,685	-32,517	-14,051
Operating cashflow	5,110	-19,311	15,796	11,377
Net interest	-9	2,601	2,805	771
Tax	-3,758		-3,857	-274
Free cash flow	**1,343**	**-16,710**	**14,744**	**11,874**
Acquisitions & investments (intangibles) - net	-30,467			
Share issues				49,494
Other	-2,638	0	0	0
Change in net debt\(cash)	**-31,762**	**-16,710**	**14,744**	**61,368**

Memo Items				
Pensions				
Present value of funded pension obligations	65,285	47188	43564	39,149
Fair value of plan assets	-42,997	-22633	-25077	-18,187
Deficit for funded plan	22288	24555	18487	20962
Analysis of debt				
Loans	123,874	36,971	2,138	0
Cash balances	153,904	98,763	80,640	63,758
Net debt/(cash)	-30,030	-61,792	-78,502	-63,758
Employee data				
Total employee costs	28,182	18,472	20,402	11,885
Average number of employees	267	225	203	124

Appendix 5 – Bord Gáis Éireann Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary Bord Gáis	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Networks revenue	187,586	165,092	169,409	157,434	109,691	104,896	89,914	83,077
Energy & ancillary revenue	1,161,582	1,214,030	1,045,589	950,404	746,817	650,023	611,028	569,202
Total revenue (excl. JV turnover)	1,349,168	1,379,122	1,214,998	1,107,838	856,508	754,919	700,942	652,279
EBITDA	**319,882**	**298,602**	**304,755**	**258,478**	**243,215**	**254,209**	**223,045**	**189,368**
Depreciation	118,102	92,682	92,879	93,114	83,198	85,266	77,336	55,850
Amortisation of goodwill	6,521	933	933					
Grant amortisation	-5,628	-5,835	-6,177	-5,124	-4,947	-4,526	-3,927	-3,922
Operating profit	**200,887**	**210,822**	**217,120**	**170,488**	**164,964**	**173,469**	**149,636**	**137,440**
Exceptionals	-19,025	-15,026	1,327	-30,159	-14,476	-8,365	3	-11,413
Share of joint ventures profits	-29			296	621	149	130	-1
PBIT	**181,833**	**195,796**	**218,447**	**140,625**	**151,109**	**165,253**	**149,769**	**126,026**
Net interest payable	-76,454	-52,896	-53,890	-48,721	-44,629	-43,392	-44,979	-31,688
Other finance costs less capitalised interest	13,490	7,728	1,917	7,427	1,847	-2,790	-1,705	19,173
Net interest & other finance costs	-62,964	-45,168	-51,973	-41,294	-42,782	-46,182	-46,684	-12,515
Profit before tax	**118,869**	**150,628**	**166,474**	**99,331**	**108,327**	**119,071**	**103,085**	**113,511**
Tax	-14,624	-19,739	-24,011	-15,479	-17,265	-19,599	-6,043	-15,349
Minorities		-641	-601	-239	-275	-189	-250	-204
Earnings	**104,245**	**130,248**	**141,862**	**83,613**	**90,787**	**99,283**	**96,792**	**97,958**

Summary Balance Sheet Bord Gáis								
Property, plant & equipment	3,543,379	2,813,704	2,668,866	2,591,776	2,396,252	2,222,881	2,128,828	2,013,231
Intangible assets	80,286	6,134	7,067	8,000				
Investment in joint ventures	18,459	0	0	0	2,243	2,477	2,328	2,198
Inventories	29,084	51,876	32,482	36,510	22,921	19,217	16,458	14,965
Trade & other receivables	318,845	298,667	248,871	272,476	212,706	166,563	150,441	139,116
Less current trade & other payables	401,951	292,779	247,036	257,124	217,581	179,511	160,355	145,822
Working Capital	**-54,022**	**57,764**	**34,317**	**51,862**	**18,046**	**6,269**	**6,544**	**8,259**
Other assets less other curr. liabilities	1,761	1,761						
Capital employed	**3,589,863**	**2,879,363**	**2,710,250**	**2,651,638**	**2,416,541**	**2,231,627**	**2,137,700**	**2,023,688**
Equity capital & reserves	1,401,715	1,300,987	1,260,240	1,134,490	1,028,905	956,714	898,439	811,443
Minority interests			2,690	2,089	1,850	1,575	1,386	1,136
Net debt / (cash)	1,810,559	1,203,036	1,106,372	1,174,215	1,079,402	1,010,157	1,042,687	1,026,407
Pension liabilities	20,239	33,910	-2,809	4,341	30,876	16,035		
Capital grants	104,646	107,524	123,988	129,570	108,866	112,742	96,217	96,278
Net deferred tax	175,839	162,103	141,905	116,863	98,904	81,065	50,102	35,428
Other long-term liabilities	76,865	71,803	77,864	90,070	67,738	53,339	48,869	52,996
Capital Employed	**3,589,863**	**2,879,363**	**2,710,250**	**2,651,638**	**2,416,541**	**2,231,627**	**2,137,700**	**2,023,688**

Cash Flow Summary Bord Gáis	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
EBITDA	319,882	298,602	304,755	258,478	243,215	254,209	223,045	189,368
Change in working capital	44,962	12,515	38,007	-46,535	-243	17,820	-12,170	29,231
Other operating cashflow	-11,401	-15,449	-14,016	-11,119	-19,568	-9,650	3,927	-20,167
Cash generated from operations	**353,443**	**295,668**	**328,746**	**200,824**	**223,404**	**262,379**	**214,802**	**198,432**
Cap.expenditure (property, plant & equip.)	-282,895	-317,975	-204,378	-261,225	-245,052	-197,292	-177,925	-630,510
Capital grants received			4,923	25,071	374	21,510	3,866	
Disposals	191	1,419	1,566	128	3,763	181	43	12,051
Net capital expenditure	-282,704	-316,556	-197,889	-236,026	-240,915	-175,601	-174,016	-618,459
Operating cashflow	70,739	-20,888	130,857	-35,202	-17,511	86,778	40,786	-420,027
Dividends from associates/ jv's	400							
Net interest	-60,734	-52,313	-54,177	-50,514	-45,671	-48,689	-44,095	-31,766
Tax	-2,932	-1,822	-476	-358		4,120	-3,175	-3,753
Dividends to minorities		-693						
Free cash flow	**7,473**	**-75,716**	**76,204**	**-86,074**	**-63,182**	**42,209**	**-6,484**	**-455,546**
Dividends paid	-39,074	-28,372	-8,361	-9,079	-10,093	-9,679	-9,796	-21,735
Acquisitions & investments	-583,459	-7,493		-2,810				
Disposal of businesses				3,150	4,030			
Share issues	7,537	14,917						
Other	0	0	0	0	0	0	0	0
Change in net debt\(cash)	**-607,523**	**-96,664**	**67,843**	**-94,813**	**-69,245**	**32,530**	**-16,280**	**-477,281**
Memo Items								
Pensions								
Present value of funded pension obligations	242,079	221449	235461	233,424	236,544	184,136	168,826	153,500
Fair value of plan assets	-218,949	-182695	-238671	-228,463	-201,256	-165,810	-148,845	-131,400
Deficit for funded plan	23,130	38,754	-3,210	4,961	35,288	18,326	19,981	22,100
Related deferred tax asset	-2,891	-4844	401	-620	-4,412	-2,291	-2,498	-2,700
Balance Sheet pension liability	20239	33910	-2809	4341	30876	16035	17483	19400
Analysis of debt								
Loans	2,356,792	1,464,897	1,524,342	1,438,579	1,329,271	1,248,788	1,058,032	1,030,753
Cash balances	546,233	261,861	417,970	264,364	249,869	238,631	15,345	4,346
Net debt/(cash)	1,810,559	1,203,036	1,106,372	1,174,215	1,079,402	1,010,157	1,042,687	1,026,407
Employee data								
Total employee costs	89,249	81,125	67,511	59,504	50,832	47,699	44,822	43,227
Average number of employees	1,006	911	854	771	714	694	704	726

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Ratios Bord Gais								
Profitability								
EBITDA margin %	23.7	21.7	25.1	23.3	28.4	33.7	31.8	29.0
Operating margin %	14.9	15.3	17.9	15.4	19.3	23.0	21.3	21.1
Activity								
Revenue/avg. capital employed (excl. JV's)	0.42	0.49	0.45	0.44	0.37	0.35	0.34	
Revenue/Avg. fixed assets	0.42	0.50	0.46	0.44	0.37	0.35	0.34	
Return on investment								
Avg. ROCE (before tax & excl. JV')s %	5.6	7.0	8.1	5.5	6.5	7.6	7.2	
Avg. ROE (after tax) %	7.7	10.2	11.8	7.7	9.1	10.7	11.3	
Growth								
Revenue %	-2.2	13.5	9.7	29.3	13.5	7.7	7.5	
Network revenue %	13.6	-2.5	7.6	43.5	4.6	16.7	8.2	
Energy & ancillary revenue %	-4.3	16.1	10.0	27.3	14.9	6.4	7.3	
EBITDA %	7.1	-2.0	17.9	6.3	-4.3	14.0	17.8	
Pensions								
Retirement Benefits assets/ R.B. liabilities	90%	82%	101%	98%	85%	90%	88%	86%
Financial/General								
EBITDA interest cover (x)	4.2	5.6	5.7	5.3	5.4	5.9	5.0	6.0
Group interest cover (x)	2.4	3.7	4.1	2.9	3.4	3.8	3.3	4.0
Debt/ EBITDA (x)	5.7	4.0	3.6	4.5	4.4	4.0	4.7	5.4
Debt/ equity %	129	92	88	103	105	105	116	126
Debt/ (equity + debt)	56	48	47	51	51	51	54	56
Debt/fixed assets (%)	51.1	42.8	41.5	45.3	45.0	45.4	49.0	51.0
Gross capex/depreciation (%)	240	343	220	281	295	231	230	1,129
Tax rate %	12	13	14	16	16	16	6	14
Dividend/ earnings (previous year) %	30.0	20.0	10.0	10.0	10.2	10.0	10.0	
Employees								
Employee costs as % of revenues	5.5	4.7	4.4	4.2	4.7	5.0	5.3	5.5
Revenue per employee (€000)	1,341	1,514	1,423	1,437	1,200	1,088	996	898

Appendix 6 – Dublin Port Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary Dublin Port	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Port dues	50,023	57,662	58,708	55,512	52,208	49,506	46,025	43,600
Rents	10,272	8,558	8,829	8,656	7,176	7,439	6,631	6,227
Other revenue	2,557	4,377	2,913	2,255	2,151	2,316	2,043	2,054
Revenue	**62,852**	**70,597**	**70,450**	**66,423**	**61,535**	**59,261**	**54,699**	**51,881**
EBITDA	**32,313**	**33,254**	**27,842**	**33,305**	**26,273**	**27,355**	**20,297**	**20,766**
Depreciation	7,267	6,910	6,941	8,485	8,230	8,051	7,984	7,785
Grant amortisation	-601	-625	-763	-772	-774	-777	-778	-839
Operating profit	**25,647**	**26,969**	**21,664**	**25,592**	**18,817**	**20,081**	**13,091**	**13,820**
Other income			375	375	375			
PBIT before exceptionals	**25,647**	**26,969**	**22,039**	**25,967**	**19,192**	**20,081**	**13,091**	**13,820**
Net interest payable	-1,523	-1,250	935	-2,890	-2,545	-2,277	-2,884	-3,086
Other finance costs less capitalised interest	-1,701	-9	-481	205	-1,891	-2,722	-3,840	-4,000
Net interest & other finance costs	-3,224	-1,259	454	-2,685	-4,436	-4,999	-6,724	-7,086
Exceptionals	-3,946	2,235	135,408	10,576	1,150	-10,722	34,079	2,848
Profit before tax	**18,477**	**27,945**	**157,901**	**33,858**	**15,906**	**4,360**	**40,446**	**9,582**
Tax	-3,985	-4,446	-28,210	-5,205	-3,447	-1,961	-1,747	-158
Earnings	**14,492**	**23,499**	**129,691**	**28,653**	**12,459**	**2,399**	**38,699**	**9,424**
Earnings adj. for 2007 disposal gain	**14,492**	**23,499**	**20,435**	**28,653**	**12,459**	**2,399**	**38,699**	**9,424**

Summary Balance Sheet Dublin Port	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Property, plant & equipment	279,331	266,102	250,501	217,004	210,645	204,829	208,524	202,751
Investment in joint ventures	8,800	8,800	7,250	7,250	7,250	7,250	7,250	7,250
Development land	1,246	1,246	1,246	1,246	1,246	1,246	1,246	1,284
Inventories	787	817	805	802	800	787	699	817
Trade & other receivables	12,107	12,619	14,972	12,452	11,192	11,908	10,852	11,784
Less current trade & other payables	9,063	12,726	20,046	14,868	15,765	10,173	8,250	6,297
Working Capital	**3,831**	**710**	**-4,269**	**-1,614**	**-3,773**	**2,522**	**3,301**	**6,304**
Other assets less other curr. liabilities	1,528	1,779	4,730	-1,620	685	2,592	3,905	488
Capital employed (excludes def. tax)	**294,736**	**278,637**	**259,458**	**222,266**	**216,053**	**218,439**	**224,226**	**218,077**
Equity capital & reserves	238,270	219,031	221,023	73,462	66,191	48,921	74,530	66,339
Net debt / (cash)	38,851	33,655	18,120	64,491	68,183	70,000	58,436	83,827
Deferred income/Government grants	13,922	14499	14985	15,739	16,509	17,280	18,056	18,895
Pension liabilities	946	11,452	5,330	67,278	63,640	80,808	72,003	
Other long-term liabilities	2,747			1,296	1,530	1,430	1,201	49,016
Capital Employed	**294,736**	**278,637**	**259,458**	**222,266**	**216,053**	**218,439**	**224,226**	**218,077**
Cash Flow Summary Dublin Port								
EBITDA	32,313	33,254	27,842	33,305	26,273	27,355	20,297	20,766
Change in working capital	-2,752	-4,945	3,219	-2,883	-9,150	-33,861	-8,251	-4,202
Other operating cashflow	-4,730	-12,370	-46,058	-20,081	-1,885	-3,002	-3,954	-4,000
Cash generated from operations	**24,831**	**15,939**	**-14,997**	**10,341**	**15,238**	**-9,508**	**8,092**	**12,564**
Cap.expenditure (property, plant & equip.)	-22,282	-24,199	-41,966	-14,753	-14,052	-4,557	-15,615	-24,953
Disposals	30	15	136,814	41	1,150	319	170	1,055
Net capital expenditure	-22,252	-24,184	94,848	-14,712	-12,902	-4,238	-15,445	-23,898
Operating cashflow	2,579	-8,245	79,851	-4,371	2,336	-13,746	-7,353	-11,334
Dividends from associates/ jv's			375	375	375			
Net interest	-2,547	-994	225	-2,666	-2,364	-2,084	-2,943	-3,082
Tax	-202	362	-29,880	-222	96	-241	-1,326	-264
Free cash flow	**-170**	**-8,877**	**50,571**	**-6,884**	**443**	**-16,071**	**-11,622**	**-14,680**
Dividends paid	-5,300	-5,108	-4,200					
Acquisitions & investments		-1,550						-7,250
Share issues					1,374	925	4,636	
Other	274	0	0	10,576	0	3,582	32,377	4,385
Change in net debt\(cash)	**-5,196**	**-15,535**	**46,371**	**3,692**	**1,817**	**-11,564**	**25,391**	**-17,545**

Memo Items Dublin Port	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Pensions								
Present value of funded pension obligations	205,000	201,000	210,796	233,800	210,850	193,000	149,300	143,900
Fair value of plan assets	-203,919	-187912	-204704	-156,911	-138,119	-99,600	-67,000	-50,200
Deficit for funded plan	1081	13088	6092	76889	72731	93400	82300	93700
Related deferred tax asset	-135	-1636	-762	-9,611	-9,091			
Balance Sheet pension liability	946	11452	5330	67278	63640			
Analysis of debt								
Loans	39,726	36,000	20,000	78,462	73,791	74,115	91,903	85,331
Cash balances	875	2,345	1,880	13,971	5,608	4,115	33,467	1,504
Net debt/(cash)	38,851	33,655	18,120	64,491	68,183	70,000	58,436	83,827
Employee data								
Total employee costs	13,415	13,659	15,015	15,033	15,768	16,496	18,403	19,088
Average number of employees	157	166	193	208	241	258	291	345

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Ratios Dublin Port								
Profitability								
Operating margin %	40.8	38.2	30.8	38.5	30.6	33.9	23.9	26.6
EBITDA margin %	51.4	47.1	39.5	50.1	42.7	46.2	37.1	40.0
Activity								
Revenue/avg. capital employed (excl. JV's)	0.23	0.27	0.30	0.31	0.29	0.28	0.26	
Revenue/ avg. fixed assets	0.23	0.27	0.30	0.31	0.30	0.29	0.27	
Return on investment								
Avg. ROCE (before tax & excl. JV')s %	9.2	10.3	9.4	12.3	9.1	9.4	6.1	
Avg. RoE (after tax) adj. for 2007 exceptional%	6.3	10.7	13.9	41.0	21.6	3.9	54.9	
Growth								
Port dues %	-13	-2	6	6	5	8	6	
Rents %	20	-3	2	21	-4	12	6	
Other revenue %	-42	50	29	5	-7	13	-1	
Revenue %	-11	0	6	8	4	8	5	
EBITDA %	-3	19	-16	27	-4	35	-2	
Pensions								
Retirement Benefits assets/ R.B. liabilities (%)	99	93	97	67	66	52	45	35
Financial/General								
EBITDA interest cover (x)	21.2	26.6		11.5	10.3	12.0	7.0	6.7
Group interest cover (x)	16.8	21.6		9.0	7.5	8.8	4.5	4.5
Debt/ EBITDA (x)	1.2	1.0	0.7	1.9	2.6	2.6	2.9	4.0
Debt/ equity %	16	15	8	88	103	143	78	126
Debt/ fixed assets %	14	13	7	30	32	34	28	41
Gross capex/ depreciation (%)	307	350	605	174	171	57	196	321
Tax rate. (%)	22	16	18	15	22	45	4	2
Employee costs								
Employee costs as % of revenues	21	19	21	23	26	28	34	37
Revenue per employee (€000)	400	425	365	319	255	230	188	150

Appendix 7 – Bord na Móna Financial Data

	2010	2009	2008	2007	2006	2005	2004	2003
	Mar.	**Mar.**	**Mar.**	**Mar.**	**Mar.**	**Mar.**	**Mar.**	**Mar.**
	GAAP	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**
Income Summary Bord na Móna	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Feedstock & power generation	126,381	121,557	112,452	83,583	83,183	58,909	68,662	65,737
Fuels	140,731	156,708	127,348	124,344	129,530	109,752	103,183	106,702
Horticulture	49,239	47,567	56,062	53,220	51,324	54,030	48,895	45,288
Resource recovery	50,372	51,976	42,067					
Environmental & other	17,694	23,759	33,297	38,028	31,701	35,169	32,127	28,517
Total revenue	384,417	401,567	371,226	299,175	295,738	257,860	252,867	246,244
EBITDA	**64,611**	**57,256**	**52,080**	**45,398**	**53,048**	**20,380**	**34,527**	**37,132**
Depreciation	33,741	30,439	26,095	18,692	16,193	15,263	15,425	14,345
Amortisation of goodwill	3,904	3,721	2,952	942	1,083	931	806	1,145
Grant amortisation	-1,278	-1,231	-1,252	-440	-59	-72	-72	-890
Impairment of assets/other	5,206	551	1,803	2,500	5,855	627	0	0
Operating profit	**23,038**	**23,776**	**22,482**	**23,704**	**29,976**	**3,631**	**18,368**	**22,532**
Exceptionals			-850	4,077	4,447	859		
PBIT	**23,038**	**23,776**	**21,632**	**27,781**	**34,423**	**4,490**	**18,368**	**22,532**
Net interest payable	-7,940	-3,933	-4,550	-1,412	-476	-294	-308	-1,080
Other finance costs	-2,199	-323	2,743	2,838	96	-185	-489	-420
Net interest & other finance costs	-10,139	-4,256	-1,807	1,426	-380	-479	-797	-1,500
Profit before tax	**12,899**	**19,520**	**19,825**	**29,207**	**34,043**	**4,011**	**17,571**	**21,032**
Tax	-2,437	-3,998	-3,049	-4,365	-5,128	-461	-1,785	-2,610
Minorities	50	408	-96	-211	-217	-191	-71	-42
Earnings	**10,512**	**15,930**	**16,680**	**24,631**	**28,698**	**3,359**	**15,715**	**18,380**
Summary Balance Sheet Bord na Móna								
Property, plant & equipment	252,671	230,484	229,618	214,936	128,479	127,186	124,156	131,154
Intangible assets	44,496	52,946	56,682	12,737	6,041	9,057	6,907	7,986
Inventories	63,754	79,725	85,974	92,824	82,842	80,229	64,749	50,623
Trade & other receivables	71,989	79,487	89,241	62,029	52,821	56,184	49,758	44,042
Less current trade & other payables	82,632	91,853	78,471	62,661	54,830	54,359	53,068	55,242
Working capital	**53,111**	**67,359**	**96,744**	**92,192**	**80,833**	**82,054**	**61,439**	**39,423**
Investment properties	13,600	19,000	28,500	35,000	30,000	25,400	22,148	
Capital employed	**363,878**	**369,789**	**411,544**	**354,865**	**245,353**	**243,697**	**214,650**	**178,563**
Equity capital & reserves	224,408	198,558	234,200	235,480	206,165	150,581	173,245	144,951
Minority interests	1,457	1,507	2,001	1,905	1,694	1,696	1,528	1,480
Net debt / (cash)	57,065	55,964	96,165	55,093	-12,198	19,508	-263	8,037
Pension liabilities	20,030	45,427	13,376	13,109	21,051	45,803		
Capital grants	14,469	15,755	16,704	17,832	252	286	358	430
Deferred tax liabilities	8,828	8,975	9,293	10,084	6,178	3,944	3,048	1,959
Net deferred tax	8,828	8,975	9,293	10,084	6,178	3,944	3,048	1,959
Other long-term liabilities	37,621	43,603	39,805	21,362	22,211	21,879	36,734	21,706
Capital employed	**363,878**	**369,789**	**411,544**	**354,865**	**245,353**	**243,697**	**214,650**	**178,563**

Cash Flow Summary Bord na Móna	2010 Mar. GAAP	2009 Mar. GAAP €000	2008 Mar. GAAP €000	2007 Mar. GAAP €000	2006 Mar. GAAP €000	2005 Mar. GAAP €000	2004 Mar. GAAP €000	2003 Mar. GAAP €000
EBITDA	64,611	57,256	52,080	45,398	53,048	20,380	34,527	37,132
Change in working capital	5,251	32,213	-7,307	-6,624	-2,274	-30,543	-4,626	4,406
Other operating cashflow	-4,261	3,952	-1,576	-187	-5,450	13,502	0	-38
Cash generated from operations	**65,601**	**93,421**	**43,197**	**38,587**	**45,324**	**3,339**	**29,901**	**41,500**
Cap.expenditure (property, plant & equip.)	-49,928	-29,479	-26,448	-16,748	-16,464	-18,860	-19,048	-14,780
Disposals	127	136	5,637	454	4,581	1,200	189	905
Net capital expenditure	-49,801	-29,343	-20,811	-16,294	-11,883	-17,660	-18,859	-13,875
Operating cashflow	15,800	64,078	22,386	22,293	33,441	-14,321	11,042	27,625
Dividends from associates/ jv's								
Net interest	-10,954	-4,438	-4,620	-668	-318	-292	-315	-1,059
Tax	-690	-1,582	-4,016	-5,590	-1,442	-1,565	-2,901	-1,798
Free cash flow	**4,156**	**58,058**	**13,750**	**16,035**	**31,681**	**-16,178**	**7,826**	**24,768**
Dividends paid	-5,257	-12,894	-8,035	-3,850				
Acquisitions & investments		-4,963	-50,537	-79,476	0	-3,753	-133	-2,016
Disposal of businesses			3,750	0				
Other	0	0	0	0	25	160	607	30
Change in net debt\(cash)	**-1,101**	**40,201**	**-41,072**	**-67,291**	**31,706**	**-19,771**	**8,300**	**22,782**

Memo Items								
Pensions								
Present value of funded pension obligations	255,756	237834	266464	290,670	287,815	282,782	232,745	214,799
Fair value of plan assets	-233,444	-186484	-253672	-281,654	-265,035	-220,160	-203,128	-173,406
Deficit for funded plan	22,312	51,350	12,792	9,016	22,780	62,622	29,617	41,393
Related deferred tax asset	-2,282	-5923						
Balance Sheet pension liability	20,030	45,427	13,376	13,109	21,051	45,803	0	0
Analysis of debt								
Loans	263,826	119,637	117,236	117,429	25,343	43,056	38,178	41,476
Cash balances	206,761	63,673	21,071	62,336	37,541	23,548	38,441	33,439
Net debt/(cash)	57,065	55,964	96,165	55,093	-12,198	19,508	-263	8,037
Employee data								
Total employee costs	110,229	115,045	100,675	95,159	90,544	105,262	88,788	74,520
Average number of employees	2,136	2,064	2,035	1,751	1,781	1,885	1,989	1,927

	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Mar.	Mar.	Mar.	Mar.	Mar.	Mar.	Mar.	Mar.	Mar.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Ratios Bord na Móna									
Profitability									
Operating margin %	6.0	5.9	6.1	7.9	10.1	1.4	7.3	9.2	9.4
EBITDA margin %	16.8	14.3	14.0	15.2	17.9	7.9	13.7	15.1	16.4
Activity									
Revenue/ avg. capital employed (excl. JV's)	1.05	1.03	0.97	1.00	1.21	1.13	1.29	1.38	
Revenue/ avg. fixed assets	1.59	1.75	1.67	1.74	2.31	2.05	1.98	1.93	
Return on investment									
Avg. ROCE (before tax) %	6.3	6.1	5.6	9.3	14.1	2.0	9.3	12.6	
Avg. ROE (after tax) %	5.0	7.4	7.1	11.2	16.1	2.1	9.9	13.5	
Growth %									
Feedstock & power generation revenue	4.0	8.1	34.5	0.5	41.2	-14.2	4.4	2.4	
Fuels revenue	-10.2	23.1	2.4	-4.0	18.0	6.4	-3.3	10.8	
Horticulture revenue	3.5	-15.2	5.3	3.7	-5.0	10.5	8.0	8.8	
Resource recovery revenue	-3.1	23.6							
Environmental & other Revenue	-25.5	-28.6	-12.4	20.0	-9.9	9.5	12.7	12.0	
Total revenue	-4.3	8.2	24.1	1.2	14.7	2.0	2.7	8.2	
EBITDA	12.8	9.9	14.7	-14.4	160.3	-41.0	-7.0	-0.2	
Pensions									
Retirement Benefits assets/ R.B. liabilities (%)	91.3	78.4	95.2	96.9	92.1	77.9	87.3	80.7	
Financial/General									
EBITDA interest cover (x)	8.1	14.6	11.4	32.2	111.4	69.3	112.1	34.4	12.9
Group interest cover (x)	2.9	6.0	4.8	19.7	72.3	15.3	59.6	20.9	7.9
Debt/ EBITDA (x)	0.9	1.0	1.8	1.2	-0.2	1.0	0.0	0.2	0.8
Debt/ equity %	25.3	28.0	40.7	23.2	-5.9	12.8	-0.2	5.5	24.3
Debt/ fixed assets %	22.6	24.3	41.9	25.6	-9.5	15.3	-0.2	6.1	24.8
Gross capex/ depreciation (%)	148.0	96.8	101.4	89.6	101.7	123.6	123.5	103.0	58.8
Tax rate %	18.9	20.5	15.4	14.9	15.1	11.5	10.2	12.4	-101.1
Dividend/ earnings (previous year) %	33%	77%	33%	13%	0%	0%	0%	0%	
Employee costs									
Employee costs as % of revenues	28.6	28.5	26.8	31.1	29.7	39.4	34.0	29.4	32.4
Revenue per employee (€000)	180.0	194.6	182.4	170.9	166.1	136.8	127.1	127.8	115.7

Appendix 8 – Coillte Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary Coillte	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Forest revenue	62,735	77,508	96,366	87,381				
Enterprise revenue	27,511	27,647	31,822	47,173				
Panel products revenue	116,619	144,320	189,940	79,235				
Revenue	**206,865**	**249,475**	**318,128**	**213,789**	**215,673**	**184,965**	**172,121**	**144,135**
EBITDA	**56,261**	**54,838**	**76,500**	**51,500**	**66,645**	**61,199**	**51,298**	**45,137**
Depreciation	8,961	11,077	11,794	6,627	6,109	5,251	4,616	3,633
Depletion	18,439	12,765	10,538	12,390	12,304	13,231	13,921	15,929
Amortisation of goodwill	117	312	312	204	194	194	194	125
Gains from sale of immature forests/other	26,838	10,141	-10,342	4	-475	-471	-495	-382
Operating profit before exceptionals	**1,906**	**20,543**	**64,198**	**32,275**	**48,513**	**42,994**	**33,062**	**25,832**
Exceptionals	18,529	549	-10,272		-17,956			
Share of assocs. /j.v. profits	-50	-50	-38	-4	-580	-1,187	-686	-1,080
PBIT	**20,385**	**21,042**	**53,888**	**32,271**	**29,977**	**41,807**	**32,376**	**24,752**
Net interest payable	-8,447	-7,220	-7,084	-4,139	-3,447	-4,045	-4,552	-5,058
Other finance costs (pension-related)	-4,422	-2,217	-397	-875	-215	-45		
Net interest & other finance costs	-12,869	-9,437	-7,481	-5,014	-3,662	-4,090	-4,552	-5,058
Profit before tax	**7,516**	**11,605**	**46,407**	**27,257**	**26,315**	**37,717**	**27,824**	**19,694**
Tax	-3,273	-2,399	-6,279	-4,793	-6,661	-2,623	-2,314	-958
Earnings	**4,243**	**9,206**	**40,128**	**22,464**	**19,654**	**35,094**	**25,510**	**18,736**
Memo Items								
Profit on sale of fixed assets	15,906	10,839	16,772	26,914	31,863	13,171	12,700	14,420
Exceptional profit on sale of immature forest	25,372	10,141						
Pretax prof. excl. fixed asset/imm. forest gains	-33,762	-9,375	29,635	343	-5,548	24,546	15,124	5,274
Summary Balance Sheet Coillte								
Property, plant & equipment	1,421,670	1,412,202	1,387,118	1,354,494	1,267,041	1,240,758	1,209,675	1,182,092
Intangible assets	814	931	1,894	2,206	1,234	1,428	1,622	1,816
Investment in associates/jv's	-151	43	93	131	127	-760	148	-101
Inventories	17,462	23,047	25,082	21,973	14,206	13,751	9,193	9,431
Trade debtors	31,322	36,423	44,601	44,816	30,524	28,725	28,112	24,129
Less current trade creditors	9,713	9,482	14,644	18,098	14,329	13,120	11,860	11,499
Working Capital	**39,071**	**49,988**	**55,039**	**48,691**	**30,401**	**29,356**	**25,445**	**22,061**
Other assets less other curr. liabilities	1,946	-13,090	-16,069	-9,815	-8,895	3,298	7,112	8,012
Capital employed (excludes def. tax)	**1,463,350**	**1,450,074**	**1,428,075**	**1,395,707**	**1,289,908**	**1,274,080**	**1,244,002**	**1,213,880**
	1,456,712	1,439,075	1,411,891	1,342,808	1,281,994	1,259,041	1,228,941	606,940
Equity capital & reserves	1,207,484	1,200,813	1,203,880	1,152,686	1,102,033	1,079,217	1,127,574	1,097,079
Net debt / (cash)	177,353	161,187	149,711	163,268	97,207	105,873	109,146	112,660
Pension liabilities	72,372	82,614	66,346	71,092	86,352	84,180		
Deferred tax liabilities	733	1,018	2,756	2,031	-1,466	-1,452	841	
Net deferred tax	733	1,018	2,756	2,031	-1,466	-1,452	841	0
Other long-term liabilities	5,408	4,442	5,382	6,630	5,782	6,262	6,441	4,141
Capital Employed	**1,463,350**	**1,450,074**	**1,428,075**	**1,395,707**	**1,289,908**	**1,274,080**	**1,244,002**	**1,213,880**

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**
	GAAP	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash Flow Summary Coillte								
EBITDA	**56,261**	**54,838**	**76,500**	**51,500**	**66,645**	**61,199**	**51,298**	**45,137**
Change in working capital	-9,891	-2,169	4,565	-2,826	9,628	-5,594	4,566	-9,558
Other operating cashflow	-35,227	-12,169	-17,369	-25,159	-42,250	-14,264	-17,114	-17,243
Cash generated from operations	**11,143**	**40,500**	**63,696**	**23,515**	**34,023**	**41,341**	**38,750**	**18,336**
Cap.expenditure (property, plant & equip.)	-40,626	-57,978	-58,298	-48,766	-48,590	-51,926	-46,705	-44,279
Disposals	16,564	11,185	19,537	27,843	32,402	13,499	13,248	14,921
Capital grants received	2,466	3,442	5,687	6,638	5,882	3,631	756	7,718
Net capital expenditure	-21,596	-43,351	-33,074	-14,285	-10,306	-34,796	-32,701	-21,640
Operating cashflow	-10,453	-2,851	30,622	9,230	23,717	6,545	6,049	-3,304
Net interest	-6,495	-7,344	-5,900	-4,209	-3,126	-4,352	-3,977	-5,134
Tax	782	-4,651	-8,755	-4,470	-6,484	-1,641	-1,954	-589
Free cash flow	**-16,166**	**-14,846**	**15,967**	**551**	**14,107**	**552**	**118**	**-9,027**
Dividends paid		-2,600						
Acquisitions & investments			-2,410	-65,978	-2,270	-279	-898	-16,634
Disposal of businesses		5,970				3,000	4,294	3,174
Other	0	0	0	-634	-3,171	0	0	-5,601
Change in net debt\(cash)	**-16,166**	**-11,476**	**13,557**	**-66,061**	**8,666**	**3,273**	**3,514**	**-28,088**

Memo Items Coillte								
Pensions								
Present value of funded pension obligations	233,847	221,022	245,238	248,205	231,486	198,509	142,127	126,519
Fair value of plan assets	-161,475	-138408	-178892	-177,113	-145,134	-114,329	-102,823	-91,042
Deficit for funded plan	72,372	82,614	66,346	71,092	86,352	84,180	39,304	35477
Balance Sheet pension liability	72,372	82,614	66,346	71,092	86,352	84,180	0	0
Analysis of debt								
Loans	178,850	163,721	160,291	178,772	107,291	109,316	112,904	112,660
Cash balances	1,497	2,534	10,580	15,504	10,084	3,443	3,758	0
Net debt/(cash)	177,353	161,187	149,711	163,268	97,207	105,873	109,146	112,660
Employee data								
Total employee costs	63,493	70,920	76,020	67,413	61,453	56,067	53,612	47,671
Average number of employees	1,170	1,250	1,269	1,214	1,230	1,188	1,213	1,231

Ratios Coillte

	2009 Dec. GAAP	2008 Dec. GAAP	2007 Dec. GAAP	2006 Dec. GAAP	2005 Dec. GAAP	2004 Dec. GAAP	2003 Dec. GAAP	2002 Dec. GAAP
Profitability								
Operating margin (before exceptionals) %	0.9	8.2	20.2	15.1	22.5	23.2	19.2	17.9
EBITDA margin %	27.2	22.0	24.0	24.1	30.9	33.1	29.8	31.3
Activity								
Revenue/avg. capital employed (excl. JV's)	0.14	0.17	0.23	0.16	0.17	0.15	0.14	
Revenue/ avg. fixed assets	0.15	0.18	0.23	0.16	0.17	0.15	0.14	
Return on investment								
Avg. ROCE (pre tax & excl. JV's) %	1.4	1.5	3.8	2.4	2.4	3.4	2.7	
Avg. ROE (after tax) %	0.4	0.8	3.4	2.0	1.8	3.2	2.3	
Growth								
Revenue %	-17.1	-21.6	48.8	-0.9	16.6	7.5	19.4	
Forest revenue %	-19.1	-19.6	10.3					
Enterprise revenue %	-0.5	-13.1	-32.5					
Panel products revenue %	-19.2	-24.0	139.7					
EBITDA %	2.6	-28.3	48.5	-22.7	8.9	19.3	13.6	
Pensions								
Retirement Benefits assets/ R.B. liabilities (%)	69.1	62.6	72.9	71.4	62.7	57.6	72.3	
Financial/General								
EBITDA interest cover (x)	6.7	7.6	10.8	12.4	19.3	15.1	11.3	8.9
Group interest cover (x)	2.4	2.9	7.6	7.8	8.7	10.3	7.1	4.9
Debt/ EBITDA (x)	3.2	2.9	2.0	3.2	1.5	1.7	2.1	2.5
Debt/ equity %	14.7	13.4	12.4	14.2	8.8	9.8	9.7	10.3
Debt/ fixed assets %	12.5	11.4	10.8	12.1	7.7	8.5	9.0	9.5
Tax rate (%)	43.5	20.7	13.5	17.6	25.3	7.0	8.3	4.9
Employees								
Employee costs as % of revenues	24.3	22.1	19.3	24.3	22.0	22.0	21.9	22.2
Revenue per employee (€000)	177	200	251	176	175	156	142	117

Appendix 9 – Dublin Airport Authority Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary DAA	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Irish aeronautical revenue	188,175	213,425	204,088	171,815	137,203	130,989	108,813	107,165
Irish commercial activities (excl. hotels)	232,470	282,642	302,887	293,998	271,463	234,921	237,557	224,327
Irish hotels				35,336	43,584	44,949	44,178	42,699
Total Irish revenue	420,645	496,067	506,975	501,149	452,250	410,859	390,548	374,191
Overseas	126,071	134,873	116,389	89,437	72,732	54,829	46,320	46,683
Total revenue (excl. JV turnover)	546,716	630,940	623,364	590,586	524,982	465,688	436,868	420,874
EBITDA	**125,512**	**154,657**	**169,917**	**145,228**	**110,992**	**89,893**	**72,625**	**69,804**
Depreciation	62,937	65,795	57,294	63,934	44,307	43,270	41,128	35,671
Amortisation of intangibles	784	1,012	955	1,125	945	891	1,769	2,206
Grant amortisation	-1,046	-1,115	-1,356	-5,178	-1,699	-1,429	-2,751	-1,713
Other non-cash charges	145	1,308	1,416	344	3,369	1,071	2,899	366
Operating profit	**62,692**	**87,657**	**111,608**	**85,003**	**64,070**	**46,090**	**29,580**	**33,274**
Other income	255	126	1,000	825	739	502	764	1,344
Share of JV pretax profit	-6,439	-7,898	-364	-174	-166	-147	75	2,365
Share of associate pretax profit	11,102	29,426	28,669	20,764	18,962	13,785	7,300	28,777
PBIT	**67,610**	**109,311**	**140,913**	**106,418**	**83,605**	**60,230**	**37,719**	**65,760**
Group net interest payable	-29,420	-11,493	-10,835	-21,087	-23,547	-23,607	-23,571	-21,416
Other finance costs less capitalised interest	18,391	2,994	2,896	2,866	3,892	1,806	0	0
Net interest & other finance costs	-11,029	-8,499	-7,939	-18,221	-19,655	-21,801	-23,571	-21,416
Profit before tax & exceptionals	**56,581**	**100,812**	**132,974**	**88,197**	**63,950**	**38,429**	**14,148**	**44,344**
Exceptional items	-56,916	-35,194	239,320	115,638		2,381	7,318	6,056
Profit before tax	**-335**	**65,618**	**372,294**	**203,835**	**63,950**	**40,810**	**21,466**	**50,400**
Tax	-9,459	-16,572	-24,735	-37,978	-14,213	-10,555	-1,453	-14,172
Minorities	-3,473	-1,972	-33	105	349	515	233	-5
Earnings	**-13,267**	**47,074**	**347,526**	**165,962**	**50,086**	**30,770**	**20,246**	**36,223**
Earnings before exceptionals	**37,947**	**77,899**	**108,500**	**69,523**	**50,086**	**28,867**	**13,356**	**30,944**

Summary Balance Sheet DAA	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Property, plant & equipment	1,791,497	1,344,260	1,006,126	793,447	809,082	745,415	706,880	698,394
Intangible assets	10,527	11,509	3,327	4,100	5,476	5,422	6,257	7,883
Investment in joint ventures	-11,328	-4,889	3,009	3,373	3,547	3,713	3,849	463
Investment in associates	91,209	104,157	91,166	148,194	140,934	134,828	145,063	155,478
Other financial assets	3,697	4,713			27,063	27,063	27,069	30,076
Inventories	21,767	29,225	30,424	23,802	24,094	18,687	18,731	18,922
Debtors	66,223	64,182	55,779	50,045	40,839	36,127	34,167	37,166
Less current trade & other payables	229,544	260,628	205,813	189,954	152,708	120,632	118,424	118,067
Working Capital	**-141,554**	**-167,221**	**-119,610**	**-116,107**	**-87,775**	**-65,818**	**-65,526**	**-61,979**
Other assets less other curr. liabilities		0	0	0	0	0	0	0
Capital employed	**1,744,048**	**1,292,529**	**984,018**	**833,007**	**898,327**	**850,623**	**823,592**	**830,315**
Equity capital & reserves	976,717	1,009,123	977,346	631,365	477,712	423,892	402,866	403,329
Minority interests	9,844	9,404	-1,428	-1,425	-1,187	-706	-254	-54
Net debt / (cash)	615,986	188,040	-34,804	135,577	379,736	384,056	377,420	375,789
Capital grants	15,863	16,909	18,024	19,380	24,558	26,257	27,686	30,437
Pension liabilities	19,820	19,002	2,280	2,331	4,116	2,759		
Provisions	85,952	38,156	13,916	37,677	5,129	5,735	6,890	12,628
Other long-term liabilities	19,866	11,895	8,684	8,102	8,263	8,630	8,984	8,186
Capital Employed	**1,744,048**	**1,292,529**	**984,018**	**833,007**	**898,327**	**850,623**	**823,592**	**830,315**

Cash Flow Summary DAA	2009	2008	2007	2006	2005	2004	2003	2002
EBITDA	125,512	154,657	169,917	145,228	110,992	89,893	72,625	69,804
Change in working capital	3,158	6,053	6,759	2,381	9,784	8,246	7,032	-6,076
Other operating cashflow	2,698	914	-6,675	574	268	157	482	-432
Cash generated from operations	**131,368**	**161,624**	**170,001**	**148,183**	**121,044**	**98,296**	**80,139**	**63,296**
Cap.expenditure (property, plant & equip.)	-522,810	-349,232	-248,875	-134,406	-100,322	-84,018	-59,758	-94,963
Disposals	39	80	390	684	54	1,154	11,380	6,953
Net capital expenditure	-522,771	-349,152	-248,485	-133,722	-100,268	-82,864	-48,378	-88,010
Operating cashflow	-391,403	-187,528	-78,484	14,461	20,776	15,432	31,761	-24,714
Dividends from associates/ jv's	19,025	13,567	9,628	8,648	8,449	7,995	4,454	3,571
Net interest	-27,238	-13,570	-12,875	-22,514	-22,693	-22,951	-23,052	-18,352
Tax	-2,986	-15,342	-23,520	-21,505	-4,437	-723	-1,503	-930
Restructuring costs	-1,558	-9,028	-27,017					
Dividends to minorities	-4,710							
Free cash flow	**-408,870**	**-211,901**	**-132,268**	**-20,910**	**2,095**	**-247**	**11,660**	**-40,425**
Dividends paid	-19,400							
Acquisitions & investments	-562	-9,588			-918			
Disposal of businesses			303,677	264,595				
Other	886	-1,355	-1,028	474	3,143	-6,389	-13,291	-14,798
Change in net debt\(cash)	**-427,946**	**-222,844**	**170,381**	**244,159**	**4,320**	**-6,636**	**-1,631**	**-55,223**

Memo Items DAA	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Pensions								
Present value of funded pension obligations	28,692	25,822	8,034	20,220	19,826	15,198	13,939	
Fair value of plan assets	-6,038	-4,106	-5,428	-17,556	-15,121	-12,045	-10,234	
Deficit for funded plan	22,654	21,716	2,606	2,664	4,705	3,153	3,705	
Related deferred tax asset	-2,834	-2,714	-326	-333	-589	-394	-463	
Balance Sheet pension liability	19,820	19,002	2,280	2,331	4,116	2,759	3,242	
Analysis of debt								
Loans	1,254,209	1,066,562	480,783	510,538	472,444	469,386	456,679	472,644
Cash balances	638,223	878,522	515,587	374,961	92,708	85,330	79,259	96,855
Net debt/(cash)	615,986	188,040	-34,804	135,577	379,736	384,056	377,420	375,789
Employee data (excl. exceptional costs)								
Total employee costs	177,780	185,502	179,864	183,305	175,790	160,850	146,054	143,641
Average number of employees	3,103	3,237	3,163	3,657	3,620	3,453	3,387	3,431

Ratios DAA								
Profitability								
Operating margin %	11.5	13.9	17.9	14.4	12.2	9.9	6.8	7.9
EBITDA margin %	23.0	24.5	27.3	24.6	21.1	19.3	16.6	16.6
Activity								
Revenue/avg. capital employed (excl. JV's)	0.34	0.51	0.63	0.58	0.52	0.48	0.45	
Revenue/ avg. fixed assets	0.35	0.54	0.69	0.74	0.68	0.64	0.62	
Return on investment								
Avg. ROCE (pretax, excl. JV's & exceptionals) %	3.9	7.0	11.3	8.5	6.4	4.8	3.1	
Avg. ROE before exceptionals (after tax) %	3.8	7.8	13.5	12.5	11.1	7.0	3.3	
Growth								
Passenger numbers %	-12.8	-0.6	8.1	13.7	12.4	6.6	5.8	
Total revenue %	-13.3	1.2	5.6	12.5	12.7	6.6	3.8	
EBITDA %	-18.8	-9.0	17.0	30.8	23.5	23.8	4.0	
Financial/General								
Aeronautical revenue as % of total revenue	34%	34%	33%	29%	26%	28%	25%	25%
Irish commercial revenue as % of total revenue	43%	45%	49%	56%	60%	60%	64%	63%
Tax Rate (before exceptionals)	27%	21%	18%	21%	22%	26%	7%	30%
EBITDA interest cover (x)	4.3	13.5	15.7	6.9	4.7	3.8	3.1	3.3
Group interest cover (x)	2.3	9.5	13.0	5.0	3.6	2.6	1.6	3.1
Debt/ EBITDA (x)	4.9	1.2		0.9	3.4	4.3	5.2	5.4
Debt/ equity %	62	18		22	80	91	94	93
Debt/ fixed assets %	34	14		17	47	52	53	54
Gross Capex/ depreciation (%)	831	531	434	210	226	194	145	266
Employee costs (excl. exceptional costs)								
Employee costs as % of revenues	32	29	29	31	33	34	33	34
Revenue per employee (€000)	176	195	197	161	145	135	129	123

Appendix 10 – Irish Aviation Authority Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary IAA	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
En-route revenue	102,826	106,615	100,204	86,100	84,160	81,886	74,348	63,334
N. Atlantic communications	16,567	17,622	16,836	15,376	14,192	13,034	12,035	11,073
Terminal	21,784	22,840	21,225	18,208	16,140	15,421	12,045	9,975
Other revenue	19,969	19,606	15,978	14,686	13,189	14,126	12,142	11,372
Total revenue	161,146	166,683	154,243	134,370	127,681	124,467	110,570	95,754
EBITDA	**30,306**	**31,253**	**30,689**	**31,563**	**32,756**	**28,127**	**11,311**	**9,628**
Depreciation	17,084	16,224	15,509	14,206	13,497	11,853	3,931	4,244
Operating profit	**13,222**	**15,029**	**15,180**	**17,357**	**19,259**	**16,274**	**7,380**	**5,384**
Net interest payable	-604	-75	-420	-1,036	-1,128	-1,326	-1,418	-607
Other finance costs	-6,680	1,942	4,400	-154	-1,966	-634	0	0
Profit before tax	**5,938**	**16,896**	**19,160**	**16,167**	**16,165**	**14,314**	**5,962**	**4,777**
Tax	-1,937	-4,658	-4,465	-2,506	-2,811	-1,761	-877	526
Earnings	**4,001**	**12,238**	**14,695**	**13,661**	**13,354**	**12,553**	**5,085**	**5,303**
Summary Balance Sheet IAA								
Property, plant & equipment	122,580	112,468	107,187	105,991	98,410	104,211	107,889	86,950
Trade & other receivables	21,639	21,947	22,510	22,111	20,598	18,353	16,474	12,226
Less current trade & other payables	1,357	4,781	1,302	1,541	1,644	648	452	677
Working capital	**20,282**	**17,166**	**21,208**	**20,570**	**18,954**	**17,705**	**16,022**	**11,549**
Other assets less other curr. liabilities	-16,056	-3,433	-13,163	-15,330	-2,647	-8,063	-15,588	-4,891
Capital employed	**126,806**	**126,201**	**115,232**	**111,231**	**114,717**	**113,853**	**108,323**	**93,608**
Equity capital & reserves	6,299	-27,634	50,166	20,573	-27,277	-36,236	60,602	56,788
Net debt / (cash)	-4,654	2,640	7,455	13,384	24,808	41,318	46,614	35,957
Pension liabilities	123,569	146,561	56,007	62,365	108,147	107,023		
Deferred tax liabilities	1,060	926	1,025	965	949	752	757	113
Net deferred tax	1,060	926	1,025	965	949	752	757	113
Other long-term liabilities	532	3,708	579	13,944	8,090	996	350	750
Capital employed	**126,806**	**126,201**	**115,232**	**111,231**	**114,717**	**113,853**	**108,323**	**93,608**

Cash Flow Summary IAA	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
EBITDA	30,306	31,253	30,689	31,563	32,756	28,127	11,311	9,628
Change in working capital	6,926	-271	-6,166	468	134	-7,556	2,149	-15,465
Other operating cashflow	4	1	-4	1	0	-253	-11	-6
Cash generated from operations	**37,236**	**30,983**	**24,519**	**32,032**	**32,890**	**20,318**	**13,449**	**-5,843**
Cap.expenditure (property, plant & equip.)	-27,080	-23,360	-17,323	-17,063	-14,058	-11,735	-21,280	-24,481
Disposals		6	4			192	50	6
Net capital expenditure	-27,080	-23,354	-17,319	-17,063	-14,058	-11,543	-21,230	-24,475
Operating cashflow	10,156	7,629	7,200	14,969	18,832	8,775	-7,781	-30,318
Net interest	-1,012	-175	-1,228	-650	-1,122	-1,308	-752	-535
Tax	-1,850	-2,639	-43	-2,895	-1,200	-900	-1,124	-272
Free cash flow	**7,294**	**4,815**	**5,929**	**11,424**	**16,510**	**6,567**	**-9,657**	**-31,125**
Dividends paid						-1,271	-1,000	-1,071
Other	0	0	0	0	0	0	0	0
Change in net debt\(cash)	**7,294**	**4,815**	**5,929**	**11,424**	**16,510**	**5,296**	**-10,657**	**-32,196**

Memo Items								
Pensions								
Present value of funded pension obligations	396,933	380809	378018	378,426	379,302	325,286	243,680	229,979
Fair value of plan assets	-255,711	-213311	-314010	-307,152	-255,705	-202,974	-177,429	-153,565
Deficit for funded plan	141222	167498	64008	71274	123597	122312	66251	76414
Related deferred tax asset	-17,653	-20937	-8001	-8,909	-15,450	-15,289	-8,281	-9,552
Balance Sheet pension liability	123569	146561	56007	62365	108147	107023	57970	66862
Analysis of debt								
Loans	15,000	20,000	20,000	55,000	55,000	55,000	55,000	45,337
Cash balances	19,654	17,360	12,545	41,616	30,192	13,682	8,386	9,380
Net debt/(cash)	-4,654	2,640	7,455	13,384	24,808	41,318	46,614	35,957
Employee data (excluding students)								
Total employee costs	84,378	90,315	83,892	64,719	59,873	60,888	60,142	54,240
Average number of employees	672	666	658	650	640	673	684	681
Air-Traffic activity								
En-route overflights	286,061	309,181	307,264	294,505	277,779	262,560	253,366	248,433
Terminal commercial traffic	222,727	269,684	267,828	251,235	241,576	226,067	228,066	216,549
North Atlantic communications	389,864	422,086	414,645	391,273	371,345	351,588	333,692	319,235

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Ratios IAA								
Profitability								
Operating margin %	8.2	9.0	9.8	12.9	15.1	13.1	6.7	5.6
EBITDA margin %	18.8	18.7	19.9	23.5	25.7	22.6	10.2	10.1
Activity								
Revenue/avg. capital employed (excl. JV's)	1.27	1.38	1.36	1.19	1.12	1.12	1.10	
Revenue/ avg. fixed assets	1.37	1.52	1.45	1.31	1.26	1.17	1.13	
Return on investment								
Avg. ROCE (before tax & excl. JV')s %	10.5	12.4	13.4	15.4	16.9	14.6	7.3	
Growth %								
En-route revenue	-3.6	6.4	16.4	2.3	2.8	10.1	17.4	
Total revenue	-3.3	8.1	14.8	5.2	2.6	12.6	15.5	
EBITDA	-3.0	1.8	-2.8	-3.6	16.5	148.7	17.5	
Pensions								
Retirement Benefits assets/ R.B. liabilities (%)	64%	56%	83%	81%	67%	62%	73%	67%
Financial/General								
EBITDA interest cover (x)	50	417	73	30	29	21	8	16
Group interest cover (x)	22	200	36	17	17	12	5	9
Debt/ EBITDA (x)		0.1	0.2	0.4	0.8	1.5	4.1	3.7
Gross capex/ depreciation (%)	159	144	112	120	104	99	541	577
Tax rate %	33	28	23	16	17	12	15	-11
En-route revenue as % of total revenue	64	64	65	64	66	66	67	66
Employee costs								
Employee costs as % of revenues	52	54	54	48	47	49	54	57
Revenue per employee (€000)	240	250	234	207	200	185	162	141

Appendix 11 – CIE Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**
	GAAP	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**
Income Summary CIE	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Suburban rail revenue	53,765	57,221	55,833	51,902	42,019	37,554	37,294	34,074
Mainline rail	132,398	150,799	143,031	140,284	139,841	135,761	121,437	115,662
Dublin city bus	196,307	203,668	200,364	189,272	181,453	177,553	172,937	159,288
Other bus	302,663	299,676	282,948	265,069	241,290	226,537	218,685	202,645
Tours	32,432	49,416	57,135	50,346	46,220	50,830	44,749	52,370
Other	24,480	28,341	46,201	49,539	53,697	55,312	66,834	65,749
Total revenue	**742,045**	**789,121**	**785,512**	**746,412**	**704,520**	**683,547**	**661,936**	**629,788**
EBITDA	**-310,945**	**-335,179**	**-277,745**	**-265,848**	**-217,500**	**-214,164**	**-199,626**	**-210,191**
Depreciation	191,131	171,907	146,182	118,452	108,998	110,652	103,317	91,877
Grant amortisation	-130,644	-115,845	-86,552	-68,874	-56,409	-52,548	-41,723	-34,651
Operating deficit	**-371,432**	**-391,241**	**-337,375**	**-315,426**	**-270,089**	**-272,268**	**-261,220**	**-267,417**
Profit on disposals	3,510	69,500	8,074	29,619	5,675	25,265	784	20,755
Deficit before interest and op. grants	**-367,922**	**-321,741**	**-329,301**	**-285,807**	**-264,414**	**-247,003**	**-260,436**	**-246,662**
Net interest payable	-791	1,141	-139	-1,985	-2,132	-4,032	-6,259	-9,982
Other finance (costs)/income	-24,900	9,700	7,800	11,100	8,900	2,700	207	350
Net interest & other finance costs	-25,691	10,841	7,661	9,115	6,768	-1,332	-6,052	-9,632
Deficit before operating grants	**-393,613**	**-310,900**	**-321,640**	**-276,692**	**-257,646**	**-248,335**	**-266,488**	**-256,294**
PSO's & rail safety programme	315,960	321,093	320,163	298,681	283,427	267,786	262,476	252,724
Release of provision			29,721					
(Deficit)/surplus for year	**-77,653**	**10,193**	**28,244**	**21,989**	**25,781**	**19,451**	**-4,012**	**-3,570**

Summary Balance Sheet CIE	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Tangible assets	2,818,246	2,624,676	2,176,896	1,846,089	1,628,195	1,459,124	1,264,533	1,082,317
Inventories	63,805	54,172	44,889	54,131	49,022	39,678	44,758	48,974
Trade & other receivables	27,237	23,796	27,345	23,731	26,577	17,498	17,236	19,374
Less current trade & other payables	120,670	139,743	118,204	87,862	83,366	79,531	72,377	62,674
Working Capital	**-29,628**	**-61,775**	**-45,970**	**-10,000**	**-7,767**	**-22,355**	**-10,383**	**5,674**
Other assets less other curr. liabilities	-181,274	-163,668	-75,249	-73,658	-24,233	-110,525	-93,277	8,428
Capital employed (excludes def. tax)	**2,607,344**	**2,399,233**	**2,055,677**	**1,762,431**	**1,596,195**	**1,326,244**	**1,160,873**	**1,096,419**
Equity capital & reserves	-346,137	-291,684	120,723	23,379	-60,710	-78,391	188,158	192,170
Net debt / (cash)	118,385	48,278	68,751	94,017	135,595	149,928	88,333	222,158
Capital grants & other deferred income	2,094,890	1,881,306	1,527,448	1,219,143	1,045,686	785,899	719,848	529,248
Pension liabilities	547,000	567,600	162,800	224,700	284,400	287,000		
Other long-term liabilities	193,206	193,733	175,955	201,192	191,224	181,808	164,534	152,843
Capital Employed	**2,607,344**	**2,399,233**	**2,055,677**	**1,762,431**	**1,596,195**	**1,326,244**	**1,160,873**	**1,096,419**
Cash Flow Summary CIE								
EBITDA	-310,945	-335,179	-277,745	-265,848	-217,500	-214,164	-199,626	-210,191
Change in working capital	-71,386	111,649	37,940	33,360	-8,961	41,153	42,098	69,273
Other operating cashflow	315,990	321,093	349,631	298,190	282,527	275,734	276,266	250,606
Cash generated from operations	**-66,341**	**97,563**	**109,826**	**65,702**	**56,066**	**102,723**	**118,738**	**109,688**
Cap.expenditure (property, plant & equip.)	-448,951	-724,948	-564,028	-405,168	-359,998	-367,405	-400,685	-371,800
Disposals	4,164	49,896	8,169	36,853	9,053	31,742	25,806	8,465
Capital grants	441,812	596,821	471,185	345,473	311,202	175,298	395,369	283,042
Net capital expenditure	-2,975	-78,231	-84,674	-22,842	-39,743	-160,365	20,490	-80,293
Operating cashflow	-69,316	19,332	25,152	42,860	16,323	-57,642	139,228	29,395
Net interest	-791	1,141	114	-1,282	-1,990	-3,953	-5,776	-6,638
Tax								
Free cash flow	**-70,107**	**20,473**	**25,266**	**41,578**	**14,333**	**-61,595**	**133,452**	**22,757**
Acquisitions & investments								
Other	0	0	0	0	0	0	373	778
Change in net debt\(cash)	**-70,107**	**20,473**	**25,266**	**41,578**	**14,333**	**-61,595**	**133,825**	**23,535**

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**
	GAAP	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**
Memo Items CIE	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Pensions								
Present value of funded pension obligations	1,794,700	1,727,800	1,711,800	1,770,000	1,699,600	1,474,200	1,286,700	1,206,900
Fair value of plan assets	-1,247,700	-1,160,200	-1,549,000	-1,545,300	-1,415,200	-1,187,200	-1,094,800	-986,500
Deficit for funded plan	547,000	567,600	162,800	224,700	284,400	287,000	191,900	220,400
Analysis of debt								
Loans	119,917	107,910	118,376	130,416	140,446	152,463	146,524	228,300
Cash balances	1,532	59,632	49,625	36,399	4,851	2,535	58,191	6,142
Net debt/(cash)	118,385	48,278	68,751	94,017	135,595	149,928	88,333	222,158
Employee data								
Total employee costs	643,465	676,542	645,151	608,640	583,347	556,332	531,250	511,950
Average number of employees	11,463	11,848	11,701	11,816	11,926	12,037	12,223	12,311
Grants								
Operating grants	315,960	321,093	320,163	298,681	283,427	267,786	262,476	252,724
State & EU capital grants	441,812	596,821	471,185	345,473	311,202	175,298	395,369	283,042
Total grant funding	757,772	917,914	791,348	644,154	594,629	443,084	657,845	535,766

	2009	2008	2007	2006	2005	2004	2003
	Dec.	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**	**Dec.**
	GAAP	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**	**GAAP**
Ratios CIE							
Growth							
Suburban rail revenue	-6	2	8	24	12	1	9
Mainline rail	-12	5	2	0	3	12	5
Dublin city bus	-4	2	6	4	2	3	9
Other bus	1	6	7	10	7	4	8
Tours	-34	-14	13	9	-9	14	-15
Other	-14	-39	-7	-8	-3	-17	2
Total revenue %	-6	0	5	6	3	3	5
Pensions							
Retirement Benefits assets/ R.B. liabilities %	70	67	90	87	83	81	85
Financial/General							
Gross capex/ depreciation (%)	235	422	386	342	330	332	388
Employee costs							
Employee costs as % of revenues	78	78	75	75	76	75	74
Revenue per employee (€000)	65	67	67	63	59	57	54

Appendix 12 – RTÉ Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP	GAAP	GAAP
Income Summary RTÉ	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Advertising revenue	131,671	195,603	202,422	183,960	165,121	144,144	127,201	126,960
Other commercial revenue	43,033	44,305	43,031	38,226	34,636	32,574	28,046	30,987
Commercial revenue	174,704	239,908	245,453	222,186	199,757	176,718	155,247	157,947
Licence Fee revenue	200,217	200,852	195,699	182,835	170,131	166,164	157,425	114,051
Total revenue	**374,921**	**440,760**	**441,152**	**405,021**	**369,888**	**342,882**	**312,672**	**271,998**
EBITDA	**11,553**	**1,272**	**29,808**	**18,447**	**16,706**	**22,648**	**21,508**	**-4,083**
Depreciation	24,537	19,970	17,857	16,534	15,955	15,672	20,751	19,206
Amortisation of intangibles	1,488	1,052	988	552				
Amortisation of grants					-689	-1,095	-1,265	-2,269
Operating profit/ (loss)	**-14,472**	**-19,750**	**10,963**	**1,361**	**1,440**	**8,071**	**2,022**	**-21,020**
Other income from operations					1,684			
PBIT before exceptionals	**-14,472**	**-19,750**	**10,963**	**1,361**	**3,124**	**8,071**	**2,022**	**-21,020**
Net interest (payable)/receivable	1,826	4,527	3,970	2,392	1,597	1,160	1,047	1,460
Other finance items incl. pension-related	-3,475	5,797	14,650	13,258	11,740	15,159	-808	-236
Net interest & other finance items	-1,649	10,324	18,620	15,650	13,337	16,319	239	1,224
Exceptional items	-11,341					-2,420		-36,226
Surplus/ (deficit) before tax	**-27,462**	**-9,426**	**29,583**	**17,011**	**16,461**	**21,970**	**2,261**	**-56,022**
Tax	-339	9,459	-3,154	937		-3,266		
Surplus/ (deficit)	**-27,801**	**33**	**26,429**	**17,948**	**16,461**	**18,704**	**2,261**	**-56,022**

Summary Balance Sheet RTÉ	2009 Dec. IFRS €000	2008 Dec. IFRS €000	2007 Dec. IFRS €000	2006 Dec. IFRS €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Property, plant & equipment	98,286	108,931	79,096	80,012	91,690	93,643	118,019	127,455
Intangible assets	4,711	4,973	4,515	3,346				
Deferred tax assets		923						
Inventories	37,156	41,314	44,387	41,453				
Trade & other receivables	38,485	52,803	61,294	59,238	54,758	49,996	40,148	32,888
Less current trade & other payables	6,309	9,257	6,716	5,082	10,979	10,702	7,063	9,669
Working Capital	**69,332**	**84,860**	**98,965**	**95,609**	**43,779**	**39,294**	**33,085**	**23,219**
Other assets less other curr. liabilities	-79,102	-98,268	-89,111	-86,272	-70,577	-64,905	-53,293	-36,832
Capital employed (excludes def. tax)	**93,227**	**100,496**	**93,465**	**92,695**	**64,892**	**68,032**	**97,811**	**113,842**
Equity capital & reserves	145,435	74,263	177,302	161,070	95,547	86,226	76,204	73,943
Net debt / (cash)	-58,848	-68,267	-90,135	-81,303	-67,766	-63,229	-37,266	-40,925
Deferred income & Gov. grants					13,370	14,663	16,081	16,501
Pension liabilities/(assets)	-9,208	86,617	-17,535	-13,872	-3,253	-3,217		
Deferred tax liabilities	969		10,365	11,471				
Net deferred tax	969	-923	10,365	11,471	0	0	0	0
Other long-term liabilities	14,879	8,806	13,468	15,329	26,994	33,589	42,792	64,323
Capital Employed	**93,227**	**100,496**	**93,465**	**92,695**	**64,892**	**68,032**	**97,811**	**113,842**
Cash Flow Summary RTÉ								
EBITDA	11,553	1,272	29,808	18,447	16,706	22,648	21,508	-4,083
Change in working capital	13,556	11,985	-109	-600	-242	4,342	4,537	-180
Other operating cashflow	-15,786	5,180	1,525	7,764	4,226	3,831	673	-917
Cash generated from operations	**9,323**	**18,437**	**31,224**	**25,611**	**20,690**	**30,821**	**26,718**	**-5,180**
Capital expenditure	-19,342	-44,432	-20,026	-11,657	-15,158	-10,868	-13,006	-12,866
Disposals	64	63	43	29	1,460	17,022	272	207
Net capital expenditure	-19,278	-44,369	-19,983	-11,628	-13,698	6,154	-12,734	-12,659
Operating cashflow	-9,955	-25,932	11,241	13,983	6,992	36,975	13,984	-17,839
Interest income	1,764	5,602	3,865	1,538	1,597	1,159	1,047	1,460
Tax						-3,266		
Free cash flow	**-8,191**	**-20,330**	**15,106**	**15,521**	**8,589**	**34,868**	**15,031**	**-16,379**
Dividends paid								
Acquisitions & investments (intangibles)	-1,228	-1,538	-2,706	-1,955				-1,283
Other	0	0	-3,568	-29	-4,052	-8,905	-18,690	-19,225
Change in net debt\(cash)	**-9,419**	**-21,868**	**8,832**	**13,537**	**4,537**	**25,963**	**-3,659**	**-36,887**

Memo Items	2009 Dec. IFRS €000	2008 Dec. IFRS €000	2007 Dec. IFRS €000	2006 Dec. IFRS €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Operating costs	400,734	460,510	430,189	403,660	352,493	319,139	291,164	276,081
Pensions								
Present value of funded pension obligations	769,924	820051	979195	1,023,188	936,381	795,087	689,504	670,067
Fair value of plan assets	-779,132	-733434	-996730	-1,037,060	-939,634	-798,304	-741,050	-675,546
Deficit for funded plan	-9208	86617	-17535	-13872	-3253	-3217	-51546	-5479
Analysis of debt								
Loans	0	0	0	0	0	0	3,051	2,000
Cash balances	58,848	68,267	90,135	81,303	67,766	63,229	40,317	42,925
Net debt/(cash)	-58,848	-68,267	-90,135	-81,303	-67,766	-63,229	-37,266	-40,925
Employee data								
Total employee costs incl. SW costs	161,294	176,077	169,615	152,814	135,528	121,859	110,429	108,675
Average number of employees	2,297	2,338	2,319	2,239	2,176	2,109	1,854	1,872

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	IFRS	IFRS	IFRS	IFRS	GAAP	GAAP	GAAP	GAAP
Ratios RTÉ								
Profitability								
Operating margin %	-3.9	-4.5	2.5	0.3	0.4	2.4	0.6	-7.7
Activity								
Revenue/avg. capital employed	3.9	4.5	4.7	5.1	5.6	4.1	3.0	
Revenue/ avg. fixed assets	3.6	4.7	5.5	4.7	4.0	3.2	2.5	
Growth %								
Advertising revenue	-33	-3	10	11	15	13		
Total commercial revenue	-27	-2	10	11	13	14	-2	
Licence fee revenue	0	3	7	7	2	6	38	
Total revenue	-15	0	9	9	8	10	15	
Operating costs	-13	7	7	15	10	10	5	
Pensions								
Retirement benefits assets/ R.B. liabilities (%)	101	89	102	101	100	100	107	101
Financial/General								
Gross capex/ depreciation (%)	79	222	112	71	95	69	63	67
Advertising/ total revenue (%)	35	44	46	45	45	42	41	
Commercial revenue/ total revenue (%)	47	54	56	55	54	52	50	58
Licence fee revenue/ total revenue (%)	53	46	44	45	46	48	50	42
Employee costs								
Employee costs as % of revenues	43	40	38	38	37	36	35	40
Revenue per employee (€000)	163	189	190	181	170	163	169	145
Commercial revenue per employee (€000)	76	103	106	99	92	84	84	84

Appendix 13 – An Post Financial Data

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary AN POST	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
ROI postage revenue	565640	624820	631578	594309	543411	517251	433971	414185
ROI revenue -Post Office services	163,950	156,407	154,321	144,230	135,963	135,078	127,214	125,174
Other ROI revenue	35,277	23,255	43,728	44,848	44,832	54,047	38,257	48,140
International services revenue	26,459	23,939	28,164	25,892	23,422	40,388	34,887	11,216
SDS							71,858	79,986
Interest income	12,890	21,622	18,192	9,548	5,259	3,429	3,022	5,015
Turnover	**804,216**	**850,043**	**875,983**	**818,827**	**752,887**	**750,193**	**709,209**	**683,716**
Operating costs	798,475	818,808	846,857	804,162	736,690	753,200	752,100	701,112
EBITDA (inclusive of interest income)	**26,835**	**50,524**	**49,065**	**40,396**	**45,425**	**33,453**	**-1,689**	**17,129**
Depreciation	20,235	18,573	18,757	21,630	27,067	33,861	37,113	32,641
Amortisation of goodwill	961	818	1,284	4,203	2,263	2,701	4,191	1,986
Grant amortisation	-102	-102	-102	-102	-102	-102	-102	-102
Operating profit	**5,741**	**31,235**	**29,126**	**14,665**	**16,197**	**-3,007**	**-42,891**	**-17,396**
Share of joint ventures profits/(losses)	-10,750	-9,685	-12,475			-50	-113	-376
PBIT before exceptionals	**-5,009**	**21,550**	**16,651**	**14,665**	**16,197**	**-3,057**	**-43,004**	**-17,772**
Finance income/(costs)	-20,560	18,340	31,250	21,123	5,391	9,399	0	0
Exceptionals			1,516	60,777	19,323	5,298	13,310	-52,500
Profit before tax	**-25,569**	**39,890**	**49,417**	**96,565**	**40,911**	**11,640**	**-29,694**	**-70,272**
Tax	-2,941	-6,675	-6,082	-20,900	-201	-503	-2,355	-53
Minorities	-555							-144
Earnings	**-29,065**	**33,215**	**43,335**	**75,665**	**40,710**	**11,137**	**-32,049**	**-70,469**

Summary Balance Sheet AN POST	2009 Dec. GAAP €000	2008 Dec. GAAP €000	2007 Dec. GAAP €000	2006 Dec. GAAP €000	2005 Dec. GAAP €000	2004 Dec. GAAP €000	2003 Dec. GAAP €000	2002 Dec. GAAP €000
Property, plant & equipment	230,236	197,761	177,620	188,262	204,137	229,686	258,908	278,729
Intangible assets	12,378	2,864	3,682	7,935	12,138	18,393	21,094	22,952
Investment in joint ventures	90	10,840	25,380				-489	-376
Trade & other receivables	41,514	41,926	48,101	61,979	50,562	45,491	41,093	48,342
Less current trade & other payables	35,115	18,853	18,367	51,249	43,675	54,375	68,449	33,387
Working Capital	**6,399**	**23,073**	**29,734**	**10,730**	**6,887**	**-8,884**	**-27,356**	**14,955**
Other assets less other curr. liabilities	-127,600	-137,538	-147,385	-100,745	-76,328	-62,174	-59,071	-67,383
Capital employed	**121,503**	**97,000**	**89,031**	**106,182**	**146,834**	**177,021**	**193,086**	**248,877**
Equity capital & reserves	-39,817	-198,542	254,808	125,332	-68,512	-107,436	168,807	188,158
Minority interests	-7,858							
Net debt / (cash)	-287,624	-350,463	-353,207	-295,049	-185,344	-89,415	-48,017	-26,822
Deferred income/Gov. grants	3,665	3767	3869	3,971	4,073	4,175	4,277	4,371
Pension liability	403,252	582,300	114,300	193,226	307,770	298,535		
Provision for business restructuring	49,885	59,938	69,261	78,702	88,847	71,162	68,019	83,170
Capital Employed	**121,503**	**97,000**	**89,031**	**106,182**	**146,834**	**177,021**	**193,086**	**248,877**

Cash Flow Summary AN POST								
EBITDA (inclusive of interest income)	**26,835**	**50,524**	**49,065**	**40,396**	**45,425**	**33,453**	**-1,689**	**17,129**
Change in working capital	-18,931	-1,079	29,551	9,575	8,128	-4,972		-17,642
Other operating cashflow	-22,178	-5,003	5,831	-12,889	-12,665	23,777	38,372	-2,734
Cash generated from operations	**-14,274**	**44,442**	**84,447**	**37,082**	**40,888**	**52,258**	**21,610**	**-3,247**
Cap.expenditure (property, plant & equip.)	-46,801	-40,773	-11,081	-16,853	-9,629	-11,340	-31,053	-76,802
Disposals	501	432	1,525	2,855	387	5,224	15,411	287
Net capital expenditure	-46,300	-40,341	-9,556	-13,998	-9,242	-6,116	-15,642	-76,515
Operating cashflow	-60,574	4,101	74,891	23,084	31,646	46,142	5,968	-79,762
Net interest			-5	-5	-56	-46	-104	-191
Tax	-4,294	-6,845	-8,852	-17,001	132	-2,860	2,468	-1,029
Free cash flow	**-64,868**	**-2,744**	**66,034**	**6,078**	**31,722**	**43,236**	**8,332**	**-80,982**
Dividends paid								
Acquisitions & investments	2,029			-4,550	-243	-1,838		-14,724
Disposal of businesses			-7,876	108,177	64,450			
Share issues							12,698	

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
	€000	€000	€000	€000	€000	€000	€000	€000
Other	0	0	0	0	0	0	165	0
Change in net debt\(cash)	**-62,839**	**-2,744**	**58,158**	**109,705**	**95,929**	**41,398**	**21,195**	**-95,706**
Memo Items								
Pensions								
Present value of funded pension obligations	2,056,852	2030000	2205300	2,346,226	2,295,770	1,944,535		
Fair value of plan assets	-1,653,600	-1447700	-2091000	-2,153,000	-1,988,000	-1,646,000		
Deficit for funded plan	403252	582300	114300	193226	307770	298535		0
Balance Sheet pension liability	403252	582300	114300	193226	307770	298535		0
Analysis of debt								
Loans	2,490	0	0	0	0	0	0	0
Cash balances	290,114	350,463	353,207	295,049	185,344	89,415	48,017	26,822
Net debt/(cash)	-287,624	-350,463	-353,207	-295,049	-185,344	-89,415	-48,017	-26,822
Employee data								
Total employee costs	588,975	599,010	600,913	578,120	514,105	507,227	501,141	479,543
Average number of employees	11,271	11,173	11,161	11,312	11,379	11,754	11,945	11,877

	2009	2008	2007	2006	2005	2004	2003	2002
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Ratios AN POST								
Profitability								
Operating margin %	0.7	3.7	3.3	1.8	2.2	-0.4	-6.0	-2.5
Activity								
Revenue/avg. capital employed (excl. JV's)	7.7	11.3	12.1	6.5	4.6	4.0	3.2	
Revenue/ avg. fixed assets	3.8	4.5	4.8	4.2	3.5	3.1	2.6	
Return on investment								
Avg. ROCE (before tax & excl. JV')s %	5.5	41.7	40.3	11.6	10.0	-1.6	-19.4	
Growth								
ROI postage revenue	-9.5	-1.1	6.3	9.4	5.1	2.3	2.4	
ROI revenue -Post Office services	4.8	1.4	7.0	6.1	0.7	6.2	1.6	
Other ROI revenue	51.7	-46.8	-2.5	0.0	-17.0	41.3	-20.5	
International services revenue	10.5	-15.0	8.8	10.5	-42.0	15.8	211.0	
Total revenue %	-5.4	-3.0	7.0	8.8	0.4	5.8	3.7	
Pensions								
Retirement Benefits assets/ R.B. liabilities (%)	80	71	95	92	87	85		
Financial/General								
Gross capex/ depreciation (%)	231	220	59	78	36	33	84	235
Employee costs								
Employee costs as % of revenues	73	70	69	71	68	68	71	70
Employee costs as % of operating costs	74	73	71	72	70	67	67	68
Revenue per employee (€000)	71	76	78	72	66	64	59	58

Appendix 14 – Bodies and Individuals that Made Submissions to the Review Group

The Department of Communications Energy & Natural Resources	Commission for Energy Regulation
The Revenue Commissioners	Commission for Communications Regulation (ComReg)
The Department of Health and Children	The Competition Authority
The Department of Defence	Broadcasting Authority of Ireland
The Department of Social Protection	Northern Ireland Authority for Utility Regulation
The Department of Transport	The Irish Academy of Engineering
The Department of Foreign Affairs	ESB
The Department of Tourism, Culture and Sport	EirGrid
The Department of the Environment, Heritage and Local Government	Bord Gáis Éireann
The Department of Agriculture	RTÉ
The Department of Education and Skills	TG4
Dun Laoghaire Council	An Post
The National Pensions Reserve Fund	Bord na Móna
The ESRI	Coillte
Forfás	The Irish National Stud Company
Dr. Dónal Palcic, Dr. Eoin Reeves. Department of Economics, University of Limerick	Horse Racing Ireland
ICTU	Bord na gCon
The National Bus and Rail Union	National Oil Reserves Agency
The Workers Party	CIE
Commission for Aviation Regulation	Dublin Airport Authority

Irish Aviation Authority	BNP Parisbas Group
Dun Laoghaire Harbour Company	Prudential International
Port of Cork	Matheson Ormsby Prentice
Shannon Foynes Port Company	Portmarnock Community Association
Dublin Port Company	Mr. Paul O'Rourke
Galway Harbour Company	Mr. Francis Mulryane
Port of Waterford Authority	Mr. E. Houlton
Drogheda Port Company	Mr. Hugh Gibney
Michael Flynn Associates	Mr. Dan Hannevig
Transdev	Ms. Claire Leonard
Ratp Dev	Mr. Alan Garvey
The 32 Counties Coaches Group - Irish Coaches & Hello Ireland Tours	Mr. Michael Dixon
The Coach Tourism & Transport Council	Mr. Antoin O Lachtnain
Telecom Property Holdings Limited	Mr. Stephen Ranalow
Arqiva	Mr. F. W. Peard
SSE Renewables	Mr. Paul Tighe
Woodland Managers Limited	Mr. Séamus O Cléirigh
Goodbody Corporate Finance	Mr. Séamus Cashman
Davy Corporate Finance	Mr. Francis Doherty

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