

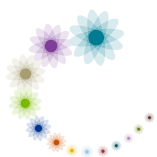


cutting through complexity

A Guide to Starting and Growing your Technology Business

October 2011





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KPMG Services



Now more than ever, it is easy to **start a business**. It is easy to find out about potential products or services, market potential, complimentary innovations and domestic and international competitors. However, it is harder to grow a successful business. You must ensure that you understand your product or service, its market and potential and ultimately how you are going to monetise your idea or ambition.

High-growth and ambitious businesses play a vital role in the economic and social life of our country. This is reflected in the encouragement, incentives and support which are provided, not just by State and development agencies, but by larger businesses and seasoned investors.

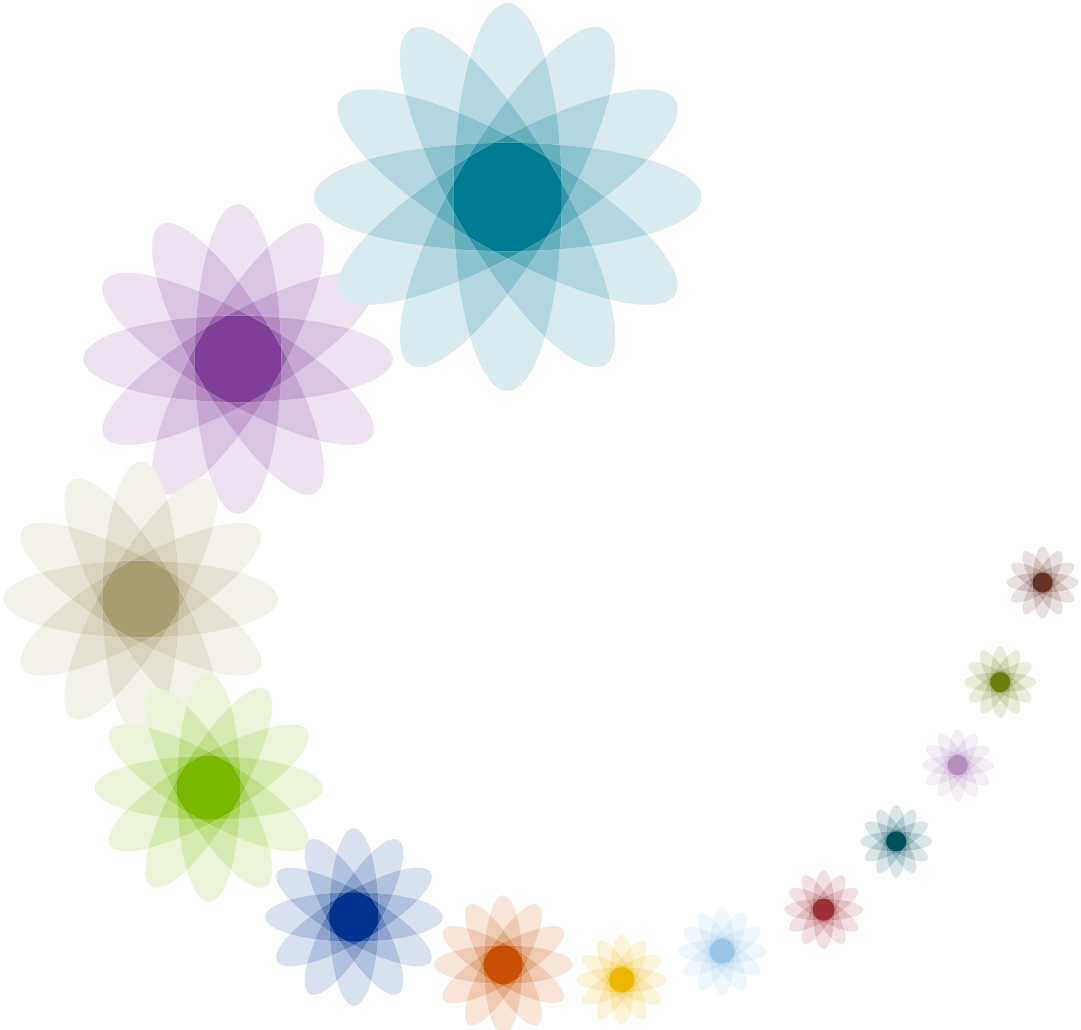
Running **your own business** is challenging and exciting. It is also complex, risky and time consuming. We have produced this booklet to give you an overview of the financial and administrative aspects of both starting and growing your own high-growth technology business.

It is critically important that you minimise the amount of time spent doing non-value generative activities. It is important you **focus** on developing your business, your **customers** and your markets.

We hope this booklet will help you **cut through complexity** and help you to focus on what is really important to your business.

KPMG

October 2011



General

A business plan helps you to focus, in a logical and organised way, on the future growth of your business. It will be required by potential financiers and your success in raising finance may often depend on how well your plan is presented. It should however, be prepared whether or not outside finance is required as it will improve the chances of your business being successful.

- Plans should include:
 - A brief summary (1 or 2 pages) indicating the background to the venture, brief details of the product and market, the management, the finance required, and summaries of projected profits (for at least one year forward).
 - More detailed information on the business such as detailed product information, the premises, the management team (with CVs), how projected sales will be achieved, your competition, details of any past performance and accounts, detailed financial projections and underlining assumptions and an assessment of required resources.
- You may seek assistance in preparing the plan, but make sure that you remain fully involved in it. It is important that you know every detail in the plan and that you are able to present it to financiers yourself.
- Too many figures may be off-putting but too few and your plans will be treated as simplistic. Quantify as much as you can. Your plan should consist of a pro-forma balance sheet, pro-forma profit and loss account and cash flow statement. You may also create some management accounts giving details of production and overhead costs.

Preparing Financial Projections

- Be as realistic as you can – and be aware, sales frequently arise more slowly than expected, whereas costs seem, if anything, to arise more quickly.
- Many businesses have peaks and troughs at times in the year (such as during the summer holidays or pre-Christmas) – take this into account in sales and cash flow projections.
- There may be a period with no income at all while your product or service is designed, tested and brought into production – this period almost always takes longer and costs more than expected. Beta testing, for example, can take a lot longer than anticipated!
- You should prepare projections for at least one year ahead. Often it is relevant to produce projections for the first three years, although less detail will normally be required in the second and third years.
- Your business plan should include a statement explaining the assumptions used in preparing your projections. Typically assumptions would include:
 - Projected sales and any increases in volume
 - Gross margin
 - Collection period for amounts due from customers
 - Credit expected from suppliers
 - Stock levels (if its products you are supplying)
 - Capital expenditure
 - Cost of finance

General

Typically high-growth businesses operate through a limited liability company.

Forming a Limited Company

The formation of a company is normally dealt with by solicitors, company registration agents or your accountant. A limited liability company is a legal entity separate from its shareholders. In the event of the business being unable to pay its debts, the shareholders should only be liable for the amount outstanding on their subscribed shareholdings.

- It is now possible to form single member limited companies, although it must have two directors, one of which, subject to exceptions, must be resident in the EEA. A director may also act as the company secretary.
- The formation of a new company involves choosing and agreeing an appropriate name, compiling suitable Memorandum and Articles of Association, lodging these and other documents with the Registrar of Companies and obtaining a Certificate of Incorporation (€100 or €50 outlay if submitted electronically). If a company is needed quickly, company registration agents, accountants and solicitors are registered with the Companies Registration Office for incorporation purposes and have pre-approved Memorandum and Articles of Association, all of which can facilitate incorporation within 5 working days of the submission of the incorporation documents.
- When you form a company you will need to hold the first meeting of directors to:
 - appoint additional or new directors and the company secretary
 - appoint the auditors (unless audit exempt) and determine the financial year end
 - determine the banking arrangements
 - allot shares and approve transfers of subscribers shares as appropriate
 - note the registered office of the company
 - make arrangements for keeping statutory books (such as register of members, register of directors and the minute book) and accounting records.
- Your solicitor or accountant can assist in the completion of the first board minutes and maintenance of the statutory books.
- In some circumstances a public limited company will be required, particularly if finance needs to be obtained by the issue of shares to the public. In such cases, additional professional advice is required.

Registration of Business Name

- The following points should be noted:
 - If you adopt a business name other than your surname or registered corporate name you must register the name under the Registration of Business Names Act 1963.
 - If a business name is used, the Certificate of Registration must be displayed in a prominent position in all locations to which customers have access.

Image

The image of your company or business is important. As your stationery (both hard and soft) is often the medium of contact with the outside world, its design should be consistent with your service and image.

- Letter heading, written orders and other documents for limited companies must include, amongst other things:
 - the business name, the name of the company plus 'Limited', 'Ltd', 'Public Limited Company', 'PLC' or 'plc' as appropriate
 - Business letters must state all the director's names (and any former names) and their nationality (if not Irish)
 - The address of the registered office, its registered number and place of registration.
- If the business is registered for VAT, it must show the VAT number on invoices and credit notes but this is optional on other stationery.
- Other information which you would normally wish to include on the company letterhead although not legally required to do so, would be telephone numbers, web address and names of any group or associated companies.

The Companies Registration Office (CRO) should be contacted for further information on incorporating a business:

- The Registrar of Companies, Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1. Tel (01) 8045222 – www.cro.ie

Insurance

Depending on the nature of your business and activities, varying levels of insurance may be required. As your business grows and your insurance needs will vary, this is an area which you are likely to focus on more.

There are a wide range of services available where you can go to seek advice and grant aided assistance in setting up and growing your business venture. Some of these are briefly outlined below.

Enterprise Ireland www.enterprise-ireland.com

Enterprise Ireland provide advisory and financial support to companies particularly in their start up and growth phases. Their High Potential Start Up (HPSU) team provides hands-on support and advice to entrepreneurs and early stage companies that are considered to have an innovative product, service or technology, and have the potential to achieve exports sales and create employment.

See chapters on Accelerating Your Business and Raising Finance for further information on Enterprise Ireland.

Science Foundation Ireland www.sfi.ie

Science Foundation Ireland (SFI) invests in academic researchers and research teams who are most likely to generate new knowledge, leading edge technologies and competitive enterprises in the fields of science and engineering underpinning three broad areas: Biotechnology; Information and communications technology and; Sustainable energy and energy-efficient technologies.

SFI makes grants based upon the merit review of distinguished scientists. SFI also advances co-operative efforts among education, government, and industry that support its fields of emphasis and promotes Ireland's ensuing achievements around the world.

County Enterprise Boards www.enterpriseboards.ie

The County Enterprise Boards, encourage local initiatives. Their brief is to assist small business start ups and expansions (up to 10 jobs) and to promote enterprise and employment at local level. Feasibility grants, capital grants and employment grants can be available.

Irish Software Association www.software.ie

The Irish Software Association (ISA) provides leadership and direction on a number of key strategic issues, including the economic importance of the sector, competitiveness, research & development, international trade, public procurement, skills availability and education policy. The ISA works with all stakeholders to:

- support companies through skills enhancement
- show companies how to access finance and funding
- promote the sector's requirements to the relevant political and public sector stakeholders,
- provide members with opportunities to generate leads with corporate customers in sectors such as pharmaceuticals, medical devices, financial services and telecommunications
- provide access to a range of ISA, IBEC and ICT Ireland comprehensive information resources.

Irish Internet Association www.iaa.ie

The Irish Internet Association is a professional body for businesses conducting their activities via the internet from Ireland. Membership of the association provides the opportunity to discuss emerging ideas and technologies, make new contacts, heighten profile in the industry and broaden knowledge in all aspects of the Internet.

The Department of Social Protection www.welfare.ie

The Department offers 2 schemes which could be of interest if you are trying to recruit talent:

1. The PRSI Exemptions Scheme, where no employer's PRSI is paid in respect of additional employees for 2 years.

To qualify, the new employees must be on the live register with FAS, Teagasc or CERT for 13 weeks prior to commencing or be under 23 years and never employed previously in a full time permanent job.

2. The Back to Work Scheme for employees over 23 years of age and at least one year on the Live Register. They receive 75% of their entitlement for the first year, 50% for the second year and 25% for the third year. Job facilitators are also available to help clients during employment to become self employed.

If you are developing your business you will need to find a supportive environment in which to grow.

Universities/ Institutes of Technology

Many of the Universities and Institutes of Technology offer Incubation Centres, open to former graduates and others. Enterprise Ireland details a list of the Enterprise Ireland funded centres at the following web address:

www.enterprise-ireland.com/en/Researchers/Spin-Outs/Incubation-Centers-Maps-and-Contacts.html

Business Incubator Programmes

Helpfully there has been a proliferation of Incubator Centres and related programmes over the last few years. While each will have their own criteria for determining whether your business might be a suitable match with their ambitions, they might be worth checking out. We have included a small selection below but there are many others operating around the country which will undoubtedly be of interest.

- Endeavour Programme – www.endeavour.biz/programme.html
- NDRC Launchpad – www.ndrc.ie
- Start up Bootcamp – www.startupbootcamp.org
- Dogpatch Labs – www.dogpatchlabs.com

Other programmes and competitions are run by a number of the US Multinational technology companies based in Ireland. These companies are playing a very significant role in developing high growth technology companies by offering investment, mentoring and partnering opportunities and critically, in many cases, routes to market for smaller technology companies.

Enterprise Ireland

Enterprise Ireland has a number of programmes to help develop the managerial and leadership skills required to grow a successful business. One of the programmes they run which is suited to developing internet based companies is the iGAP Programme. This is a management development programme aimed exclusively at high potential internet and gaming companies to equip key individuals with the practical tools needed to formulate aggressive international growth plans and scale their businesses.

Aside from bootstrapping which is going to be critically important for most businesses in the early days, once you start to grow and expand, external sources of finance (beyond friends and family) will be important.

Before approaching financiers, even in cases where relatively small amounts of capital are required, you will need to prepare a proposal or business plan. Your success in raising finance may often depend on how well your plan is presented. Therefore, the points discussed earlier in relation to preparing a business plan should be borne in mind when preparing information for a potential financier.

Outlined below are some of the sources of equity finance:

- Private Individuals
 - Many early stage companies get their initial funding from private individuals. These individuals have often created wealth in the industry or in other sectors and may wish to invest their time and money to create value at an early stage in a company's development. Frequently the best route to attracting these individuals is through your own business contacts.
 - It is also possible to widen the pool of investors through business angel networks such as the Halo Business Angel Network (www.hban.org).
- Strategic Investors
 - For many companies strategic investors can provide both funds to grow a business and services that help early stage companies reach their targets faster (e.g. by leveraging the investor's existing sales platform). This win – win situation can greatly enhance value for both parties.
- Seed and Venture Capital
 - Ireland is fortunate to have a vibrant seed and venture capital industry. Seed and venture capital providers deploy funds to grow companies, provide support and expertise and use their networks to assist investee companies reach their goals. There are Irish venture capitalists active at all stages of the development curve from early stage seed funding to later stage pre IPO funding rounds.
 - The Irish Venture Capital Association ('IVCA') is the representative body of the industry and their website www.ivca.ie provides details of the main industry participants.
 - In addition to the domestic participants, a number of foreign venture capital providers have invested in Irish technology companies. Indeed, it is expected that through the Innovation Fund, which was launched in 2010, that additional venture capital will become available and be deployed in the market.

It goes without saying, but high growth technology companies need access to smart capital. Smart capital might be in the form of an angel investor, a strategic investor, a seed or venture capital provider or any other source of funding that can assist the company with more than just money. Mentoring, the provision of industry or market insights, introducing contacts or customers or just being there as a sounding board can be an invaluable contribution by any provider of finance.

■ Enterprise Ireland

- High growth potential start up's (HPSU's) are companies that, in the view of Enterprise Ireland, can develop innovative technologies, products and services for sale on world markets. As a result, Enterprise Ireland run a number of equity and grant aid initiatives to assist HPSU's in their operations:

HPSU Feasibility Grant

- The aim of the High Potential Start Up (HPSU) Feasibility Study Grant is to assist a new start up company or individual entrepreneurs to investigate the viability of a new export orientated business or proposition.
- Typical elements involved in carrying out a feasibility study include: Market research; Cost analysis; Financial projections; Manufacturing process assessment; Plant evaluation and selection; Raw material sourcing; Prototyping; Negotiating with potential joint venture partners or obtaining a manufacturing licence for example.
- Applications are considered on a case-by-case basis. The maximum grant funding available for a High Potential Start Up feasibility study is 50% of eligible expenditures, up to a maximum level of grant of €15,000.

Competitive Start Fund

- The purpose of the Competitive Start Fund is to accelerate the growth of start up companies that have the capability to succeed in global markets. The fund is designed to enable those companies reach their key commercial and technical milestones. The Competitive Start Fund is primarily open to companies who are active in the ICT & Industrial sectors, including: Internet, Games, SaaS, Cloud Computing, Enterprise Software, Telecoms, Life Sciences, Cleantech and Industrial Products.
- Applications are considered on a competitive basis, and the maximum support available is €50,000 for a 10% ordinary equity stake in the start up company, provided there is additional new equity of at least €5,000 injected into the company.

HPSU Fund

- Enterprise Ireland established the Innovative HPSU Fund to support the start up and development costs of High Potential Start Up companies. The Innovative HPSU Fund allows Enterprise Ireland to offer equity investment to HPSU clients, on a co-funded basis. This investment goes towards the achievement of an overall business plan, rather than funding towards discrete elements of a business plan, such as R&D or employment creation. The funding of a business plan in this way is similar to a venture capital (VC) approach.

Other incentives made available by Enterprise Ireland include the R&D Fund: Small projects, where up to 50% of the total cost of the project may be grant funded, depending on the size of your business.

- While equity finance is the most frequently considered source of funds for growth companies, it can be difficult to attract and may come at a high price. We set out below five additional sources of funding for growth companies:
 - Bank Debt
 - Most growth companies rule out bank debt on the basis that they assume banks would not be interested in advancing traditional term debt. While this may be true, bank finance is often available in the form of asset backed lending. For example, many companies can avail of invoice discounting to fund working capital. Invoice discounting allows a bank look through the growth company's financial strength and relies on the borrower's customers' commitment to settle invoices. While invoice discounting is not appropriate for every situation, it does provide some companies a flexible form of finance that increases in line with growth in sales.
 - Working Capital Management
 - Smart working capital management can significantly increase the cash available to a company. Many straightforward approaches are available to reduce the peaks in cash requirements including those outlined below:
 - Is there potential for some/all customers to pay in advance? Some companies make advance payment their default position (e.g. airlines or many software providers); others find it more difficult but may be able to negotiate part payment or early settlement discounts
 - VAT can be a significant cash flow item for companies. Taking steps to manage VAT such as timing large invoices so that VAT is not payable before the customer is likely to pay can significantly smooth cash demands
 - Many growth companies find that their suppliers require tight payment terms or letters of credit to guarantee payment. Building credibility with credit insurers can lead to suppliers being in a position to agree better payment terms due to enhanced credit insurance being available to them.
 - Vendor Finance
 - Growth companies frequently have requirements for significant capital acquisitions that are material relative to the overall scale of the company. Depending on the nature of the asset or equipment required, it may be appropriate to part finance the asset with the vendor. In the event of a default, the vendor should be in a much better position than a bank to assess and realise value from enforcement and as such may be better positioned to partially fund the relevant asset. Alternatively, an equipment vendor may be prepared to provide a buy back guarantee which may help facilitate more traditional forms of finance.

- R&D Tax Credits
 - R&D tax credits can be another source of funds for growth companies. The R&D tax credit legislation provides that for every €100 of qualifying expenditure (revenue or capital) identified as eligible R&D activities, a company could be entitled to €25 in tax credits in addition to the 12.5 percent corporation tax deduction at the standard rate. Thus, the total benefit could be worth €37.50 for every €100 spent. For companies in start up and growth phases, which may not have taxable profits, this relief is still attractive as in certain circumstances it could be recoverable against payroll taxes for the period in which the relief is claimed. It is also important to remember that the legislation provides for R&D in a broad range of industries and contexts and as such is not simply designed for 'lab work'.
- See chapter on Taxation of Business Profits for further information on the R&D tax credit.*
- European Commission & European Investment Bank
 - The European Commission and the European Investment Bank both have mandates to fund research and development to boost competitiveness across the EU. The EC funds the FP7 programme, a seven year research fund with a total budget of €50 billion. These funds are available to both public and private bodies. There have already been many Irish recipients of FP7 grants and the development agencies are keen to ensure Irish companies benefit from this significant programme.
 - The European Investment Bank will also provide risk capital to fund research and development in its €10 billion Risk Sharing Finance Facility. The RSFF is a debt facility tailored for large research, development and innovation projects. It is aimed at companies or projects mature enough to demonstrate a capacity to repay debt on the basis of a credible business plan.

Notwithstanding the range of alternatives described above, possibly the best source of funding for growth companies is customers. Sales early in a product's life cycle will help market orientate the product, provide market validation and feedback and fund further development. These factors can lower your product development risk and make later customer wins more straight forward.

Take advice on how much of your finance you should lock up in the form of share capital rather than loan capital.

The choice between buying an asset and using hire purchase or leasing often involves a consideration of your tax position. When buying certain assets you can claim a capital allowance against your taxable profits, while if you use HP only the rental is allowable for tax purposes. However, the benefit of the allowance should be reflected in the leasing rates and therefore in start up situations where no immediate tax liability is anticipated, you should explore the possibility of leasing.

Employing People

Good employees are valuable assets and therefore as much care and attention should be given to recruitment as any other aspect of your business. Getting recruitment wrong can be a costly exercise, not only in terms of the time and money invested in the new employee, but also the lost performance, disruption to the business and the 'knock on' demotivating effect on other employees. It is essential, therefore, to get the recruitment right. There is extensive legislation relating to employment in general and especially to the health and safety of people at work.

- Sufficient time and money should be allocated to selecting the right kind of person with the necessary skill and personality for the task required. Normally, this involves preparing a job description, a list of qualities required from the candidate including education, technical expertise, experience, salary and benefits to be offered, and how soon the new employee is needed bearing in mind the period of notice that the candidate's present employer may require.
- In a company that is growing rapidly, you are unlikely to have any specific HR function. Therefore, it is important to ensure that whoever is interviewing and selecting candidates is cognisant of the do's and don't's.
- It is important to ensure that potential recruits have the skills required and would be a good fit for your organisation. References should also be obtained.
- If you are recruiting employees, you may qualify for grant aid. It is also worth bearing in mind the scheme currently being run by the Department of Social Protection whereby an exemption from PRSI may be given in respect of certain new employees for a period of two years (*discussed in the chapter Where to Look for Assistance*).
- Once employment commences, an employee normally acquires certain statutory rights if working more than 18 hours per week, including rights to:
 - written particulars of terms of employment
 - time off work in certain circumstances (e.g. maternity leave)
 - continuity of employment on transfer of business
 - minimum period of notice
 - grievance for a dismissal (after 1 years employment)
 - not be unfairly dismissed (after 1 years employment)
 - not be discriminated against, on grounds of sex, race, religion, Trade Union membership or political opinions and
 - redundancy pay (after 2 years service)

Within one month of commencing employment, particulars of the terms of employment should be given to all employees working more than 18 hours a week. This should contain as a minimum, details of pay and the basis of calculation, the pay in full, work, holiday and holiday pay entitlements, provisions for sick pay, pension arrangements and length of notice on termination of employment.

It is advisable to set up good employee records at the outset to enable you to make decisions about pay and promotion, to demonstrate compliance with the PAYE and PRSI requirements, to defend yourself against claims by employees (particularly unfair dismissal), and to show that there has been no discrimination in advertisements, interviews, choices of employee or promotions.

Staff turnover can create havoc in any business. You should therefore try to have regular discussions with your employees, particularly key ones, to ensure that you keep them informed of their progress and prospects and that they understand their intended role in the business.

Share based payments

Retaining and attracting key talent can be a real challenge in all organisations. It can be particularly challenging in start up and growth stage companies where cash is tight.

While recent tax changes have impacted upon the tax cost and administrative obligations for companies and their employees, awarding shares can still be an attractive way of retaining and motivating employees.

In addition, in an environment where marginal income tax rates can be as high as 52% (if you include employee PRSI and Universal Social Charge) and the Capital Gains Tax (CGT) rate is 25%, significant benefits can be achieved if employees can legitimately derive some of their benefits from selling shares.

The tax treatment, and ultimately tax cost of remunerating key staff and employees using shares rather than cash or other benefits, will depend on the nature of the arrangements in place. It will depend on whether share awards, share options, restricted stock units or other forms of arrangements exist.

Where it is possible to give employees participation in the company, before there is too much value in the company, this can be very tax efficient. In addition, where certain restrictions are placed on shares, it can be possible to award those shares in a relatively tax efficient manner. In this regard, specific provisions are set out in the tax law which need to be adhered to in order to maximise the tax efficiency of any structure. Valuing shares appropriately, especially in a private company, can pose a challenge. However it is important that appropriate valuation support is secured in order to minimise tax risks.

There have been significant changes in recent years in how share based remuneration and reward schemes are taxed. It is therefore critically important to secure appropriate advice when designing the arrangements appropriate for your company.

Pensions

When starting or growing a business you will need to consider if, and how, you might fund a pension.

If you operate as a sole trader you can fund your pension through a Retirement Annuity Contract (RAC), or a Personal Retirement Savings Account (PRSA). If you operate through a company, it will also be possible to fund your pension through an occupational pension scheme. You should note that if you hire employees through your company, you must provide access to a PRSA for your employees if an occupational pension scheme is not available.

Tax relief is available in respect of pension contributions up to the following age-based percentage limits of earnings up to €115,000:

Age	Percentage of earnings
Under 30	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 and over	40%

In general, the following options will be available on retirement:

- First 25% (capped at €200,000) of fund as tax free cash
- Remaining 75%:
 - Purchase annuity pension
 - Drawdown as Taxable Cash
 - Transfer to Approved Retirement Fund (ARF)

The following additional points should be noted:

- When starting a business you should obtain the advice of your pension consultant, accountant or bank manager about the alternatives available to you. If you have a deferred pension from a previous employment you should review its adequacy and if necessary affect a further plan to enhance your existing benefits.
- The right pension arrangement has the considerable advantage of large tax savings. You should ask your tax adviser what the taxation consequences of a scheme are before entering a particular scheme. Also, you should commit to your Pension Scheme only as much as you or your business can afford.
- You should consider joining an approved permanent health benefit scheme. The premiums qualify for income tax relief subject to a maximum of 10% of total income in any one year. Benefits received under such schemes are charged to tax under PAYE.

General

Taxation is always an important aspect of running any business and your business plan should indicate a broad understanding of the taxation consequences of your decisions - even though tax and tax planning is an area which increasingly requires the skills of a qualified professional adviser.

Companies and Corporation Tax

A single form (Form TR2 which is available from www.revenue.ie/en/business/popular-forms.html) is used to register a company for all tax heads. A company will be issued with a tax reference number and this is a separate number to the Company's Registered Number which is issued by the Companies Registration Office when a company is formed.

The standard corporation tax rate is 12.5% for trading income, and 25% for other (non-trading) income. Companies also pay corporation tax on capital gains.

Some important points to note in relation to corporate tax:

- Proprietary directors may take a salary from the company which is allowable for tax purposes against the company's profits.
- Allowances are generally available for expenditure on industrial buildings, plant and equipment, furniture, commercial vehicles and cars. The amount qualifying for tax relief is reduced if they are grant aided.
- Trading losses in a company can only be set against income or capital gains arising in the company.
- A company's preliminary tax payment obligations are dependent upon whether the company would be regarded as a 'large' company for corporation tax purposes.

A company is regarded as being 'large' if its prior year corporation tax liability exceeded €200,000. The following rules apply:

- A large company is obliged to pay preliminary tax during the sixth month of an accounting period and this payment must be at least 45% of the final liability for that year or 50% of the final prior year liability.
- A second instalment of preliminary tax must be paid by a large company approximately 1 month before the end of the relevant accounting period. This second instalment must bring the total preliminary tax payment to at least 90% of the final liability for that year.

A company, not being a 'large' company, is required to pay preliminary tax approximately 1 month before the end of the accounting period. This payment must equate to at least 90% of the final liability for that year or 100% of the final prior year liability.

Any balance of corporation tax payable should be paid when filing the corporation tax return (Form CT1) approximately 9 months after the end of the relevant accounting period. All Corporation Tax payments and filings must be submitted using the Revenue's Online Service (ROS).

Tax Incentives and Reliefs

There are a number of tax incentives and reliefs which are available to a company and a brief summary of some of these are set out below.

Corporation Tax Relief for Start Up Companies

Tax relief for start up companies is available for companies that commence to trade in 2009, 2010 or 2011. Such companies will be exempt from corporation tax on both trading income and certain capital gains, in each of the first three years for which the trade is carried on, provided the annual corporation tax liability does not exceed €40,000 in this period. Marginal relief applies where the company's liability is between €40,000 and €60,000. No relief is available for companies with a liability of €60,000 or more. Certain trades are excluded from the relief and the trade cannot be a pre-existing trade taken over by a new company. In order to qualify for the relief for companies commencing in 2011 the benefit is restricted by a company's employer PRSI obligations.

If you believe your company may be eligible for this relief further advice should be sought from your tax adviser or local tax office.

Research and Development Tax Credits

The Research & Development (R&D) tax credit is a valuable tax-based incentive that is designed to encourage R&D investment by companies in Ireland.

The scheme works by giving companies 25% of the amount they spend on incremental R&D over a given accounting period. In the first instance the credit is offset against corporation tax. In cases where there is little or no corporation tax liability, companies can receive a cash payment from Revenue. This is generally issued over 3 years and is subject to a reasonably complex set of rules.

The 25% credit is available in addition to the 12.5% corporation tax deduction, giving a potential benefit of up to 37.5% of eligible R&D spend.

The relief is generally available for R&D activities carried out in a wide variety of science and technology areas such as software development, engineering, systems analysis, some aspects of financial services, etc.

The main areas in which eligible R&D tends to occur in Ireland are the development of new, and enhancement of existing products, processes, and systems. To qualify for the tax credit, R&D activities must be:

1. Systematic, investigative, or experimental
2. Within a Revenue-approved field of science or technology e.g. software development
3. Fall under the categories of basic research, applied research, or experimental development
4. Involve the resolution of scientific or technological uncertainty
5. Seek to achieve scientific or technological advancement.

Companies that are considering making an R&D tax credit claim are encouraged to seek professional advice. More information on R&D tax credits can be found on KPMG's website: www.kpmg.ie/r&d.

The Business Expansion Scheme ('BES')/Employment and Investment Incentive Scheme ('EIS')

The Business Expansion Scheme encourages enterprise by giving individuals tax relief for investment in companies carrying on certain trading operations. The Scheme is intended to help small companies to obtain additional capital. The relief allows an individual investor reduce his/her total income for tax purposes by an amount equivalent to the amount invested in eligible shares, subject to a limit on investments of up to a maximum €150,000 in any one year up to 2013. A company qualifying for BES investment is a company which:

- is a Micro, Small or Medium Sized Enterprise within the European Commission definition in force for the relevant period
- is incorporated in the State or another European Economic Area (EEA) State
- is resident in the State or is resident in another EEA State and carries on business in the State through a branch or agency
- is not regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for rescuing and restructuring firms in difficulty
- is an unquoted company (except in the case of companies listed on the Irish Enterprise Exchange (IEX))
- is engaged in a qualifying trade or whose business consists of holding shares or securities in one or more qualifying subsidiaries;
- has its issued share capital fully paid up.

1 Criteria:

- (1) Micro:** Headcount of < 10, and Turnover of < €2m or Balance Sheet total of < €2m;
(2) Small: Headcount of < 50, and Turnover of < €10m or Balance Sheet total of < €10m;
(3) Medium-sized: Headcount of < 250, and Turnover of < €50m or Balance Sheet total of < €43m;

A company will not cease to be regarded as a qualifying company if it is wound up or dissolved during the three year relevant period, provided it can be shown that the winding up or dissolution is for bona fide commercial reasons, and not part of a scheme or arrangement the main purpose of which (or one of the main purposes of which) is the avoidance of tax.

Further information is available from the Revenue website:

<http://www.revenue.ie/en/tax/it/leaflets/it55.html>

Finance Act 2011 announced that the Business Expansion Scheme will be replaced by the Employment and Investment Incentive Scheme (EIS), once EU approval is granted. While much of the framework of the "old" BES provisions have been replicated in the EIS provisions, there are some significant aspects of the EIS which will represent very positive news for many companies. The most significant differences between the existing BES and the new EIS are:

- The EIS will apply to a larger number of SMEs across different industry sectors (however, companies engaged in, for example, land dealing, financial services, film production, will be excluded).
- Companies not yet trading but engaged in qualifying research and development activities will be eligible under EIS. Relief will be available where such companies have either commenced to trade or expended at least 30% of the investment proceeds on R&D. This is reduced from 80% under BES.
- The required holding period for investments has been reduced from five to three years. The quantum of tax relief will remain at the marginal income tax rate where certain employment targets or R&D targets have been achieved.
- The lifetime ceiling relating to the maximum level of funding that a company can raise through the EIS will be €10 million (compared to €2 million under the BES). The maximum amount which can be raised by a company in any one year has been increased to €2.5 million (up from €1.5 million under the BES).
- The EIS contains certain provisions dealing with green energy activities and specifically energy from renewable sources.
- The maximum annual relief for an individual remains at €150,000, and excess unused relief can be carried forward to future years.

Seed Capital Relief

If you are an employee and interested in starting your own business, you may be entitled to avail of the tax refund available under the Seed Capital Scheme. An employee who leaves employment and invests by means of shares in a company, which carries on a new business, may claim a refund of income tax paid in the previous six years.

The size of the tax refund is capped by the amount of your investment. If your investment is big enough, you could get back all the income tax you paid over six years. You can select tax years for which you claim refunds from any or all of the six years prior to the year of your investment. For each of the selected years, the refund is limited to the tax you have paid. There is an upper limit in any year of the tax paid on €100,000.

- The Investor:
 - The Scheme is designed for those who have been in PAYE employment.
 - You must be a full time employee or a full time director of the new company for at least one year starting either within the tax year in which the investment is made or within six months of the date the investment was made.
 - You must acquire at least 15% of the issued share capital of the company. You must maintain the level of your shareholding at this percentage for at least one year, even if the share capital of the company should expand.
 - Your investment in the company may be made in stages, the second investment must be made within 2 years following the tax year in which the first investment is made.
- The Company
 - The Company must be set up with the intention to carry on qualifying trading operations. Details of what constitutes qualifying trading operation are available from the Revenue Commissioners. Finance Act 2011 enhanced the scheme by removing the current limitation on the trades that qualify and simplifying the operation of the scheme.
 - It must have a certificate from a relevant certifying body stating its satisfaction that the trading operation is likely to create new jobs and is a bona fide new venture.
 - Further information is available from the Revenue website: <http://www.revenue.ie/en/tax/it/leaflets/it15.html>

Expanding Overseas

Irish companies who wish to expand their operations outside Ireland need to consider a number of tax issues.

Corporate and Employee Tax Costs

- Companies must consider the applicable corporate tax rates and other business taxes that may arise in foreign jurisdictions in which they do business.
- The transfer of assets or employees abroad can also impact upon both Irish and foreign tax provisions and companies must also consider such matters where appropriate

Corporate Structure

- If an Irish company uses a branch to operate in a foreign jurisdiction, the Irish company will remain liable to Irish corporation tax on these business profits. If they trade through a company, the foreign income will typically only become taxable to the extent that the profits are repatriated to the Irish parent company. The decision as to whether to establish a branch or a company maybe influenced by how you intend to conduct your overseas sales and the forecasted profitability of the overseas business during the early years of trading and whether a tax treaty is in place with that country.

Transfer Pricing Rules

- Many overseas countries have formal rules which determine how prices are determined when related companies do business with each other. It may be necessary to conduct transfer pricing studies and maintain appropriate documentation to ensure transfer pricing requirements are being met.

Financing of Foreign Operations and Thin Capitalisation Provisions

- Setting up international operations abroad may require efficient financing structures to be put in place. Rules exist in many countries in relation to how and when interest is deductible for tax purposes for example.

Exit Strategies

- When developing a structure for a group with international operations, it may be important to determine how to set-up the structure to facilitate efficient exit or disposal planning. While your efforts should be spent developing your business, rather than how you are going to get out of it, this is not something to lose sight of and can lead to substantial benefits in the long-run.

Double Tax Agreements

- There are currently 64 Double Tax Agreements in place between Ireland and our Treaty partner countries, of which 56 are in effect. Double Tax Agreements can significantly reduce the tax cost of doing business abroad. In certain cases, it will result in a reduction in the level of withholding tax suffered. In other cases, it can mean that no foreign tax liability arises at all. A list of Ireland's current treaty partners can be found on the Irish Revenue's website via the following link:

<http://www.revenue.ie/en/practitioner/law/tax-treaties.html>

Tax Planning

It is unwise to start a business without considering the longer term aspects of your decision. You should seek the advice of your tax adviser on the tax planning aspects of your circumstances. Some of the areas in which you might want to seek planning assistance include:

- Planning your remuneration package, and that of your key staff, can prove worthwhile. For instance, there are many alternative ways of rewarding staff that may be worth considering.
- Enabling founders and key talent and staff to participate in the equity of the company before significant tax costs arise.
- Organising your affairs to facilitate a fully compliant R&D tax credit claim and cash refund, where possible.
- Maximising your ability to capitalise on Ireland's low rate of Corporation Tax of 12.5%. This is important when most other countries you are likely to do business in have higher Corporate Tax rates.
- Minimising your exposure to withholding tax. Many technology companies doing business abroad experience withholding tax costs. It is important to anticipate likely issues and deal with them.
- Setting up a suitable investment structure from the outset, in anticipation of a likely exit, can maximise the after tax return which can be realised by investors and shareholders.

General

When running a business, you have to act as collection agent for the following taxes.

Payroll Withholding Taxes

If you employ someone in your business or company, you are responsible for withholding income tax, Pay Related Social Insurance (PRSI) and the Universal Social Charge through the Pay-As-You-Earn (PAYE) system and remitting the collected amounts to the Collector General. It is vitally important to note that if you decide to operate through a company, you will be obliged to withhold payroll taxes from any amounts you extract from the company for personal use (other than dividends), whether by way of salary, director's fees, or other drawings.

- Employers must register for PAYE when they pay remuneration exceeding €8 per week (or €36 per month) in the case of an employee engaged full-time or €2 per week (or €9 per month) where the employee has other employment.
- When you take on an employee, you should first obtain from them a form P45 or a Certificate of Tax Credits and Standard Rate Cut-Off Point. You must then notify the tax office of the employment. If neither a P45 nor a current year's Certificate of Tax Credits and Standard Rate Cut-Off Point is available you must complete a form P46 and send it to the tax office. In these circumstances, PAYE and PRSI should be operated on the 'emergency basis' until the tax free allowance certificate is received.
- An employer must:
 - Deduct payroll taxes from the employee salaries, and maintain records detailing payroll taxes withheld.
 - Submit monthly P30 returns each month by the 14th day of the following month, detailing income tax, PRSI (including employers share), health levy and income levy, together with payment of amounts withheld.
 - Submit annual P35 and P35L returns to the Collector General by 15 February following the end of the tax year.
- Seek the advice of your tax office, tax adviser or accountant before employing any “casual labour” - such individuals should more than likely be paid under the PAYE system. The detailed procedures relating to the operation of PAYE are included in the Employers' Guide to PAYE booklet issued by Revenue. This is available to download from Revenue's website: www.revenue.ie/en/business/payee/guide/index.html
- As an employer, you may be obliged to make a return of expense payments and benefits provided to your directors and employees.

- If you are a director of a Limited Company, then you must send a Form P45 or P46 to the tax office in order to become a registered employee. Thereafter, with the exception of PRSI rates, which are lower for certain owner directors, you will be treated on a day to day basis, like any other PAYE employee. Directors are also subject to self assessment, even though the income they receive from the company may already be subject to PAYE. Therefore, you must submit an income tax return to the Inspector of Taxes not later than 31 October in the year after the year of assessment to which the return relates. This deadline is usually extended by about two weeks if your return is filed and your tax is paid online using Revenue Online Service ('ROS'). Failure to make a return by the due date will result in the imposition of a surcharge as follows:
 - a. 5% of your gross income tax liability, without any credit being given for tax deducted under PAYE, subject to a maximum of €12,695 if the return is submitted within two months of the specified date, and
 - b. 10% of your gross income tax liability, without any credit being given for tax deducted under PAYE, subject to a maximum of €63,485, where the return is not submitted within two months.

Value Added Tax (VAT)

You must register your business for Value Added Tax (VAT) as soon as taxable supplies (i.e. your business transactions that are liable to VAT) exceed or become likely to exceed the limits for registration. For Irish established businesses, the current limits are €75,000 for the supply of goods and €37,500 for the supply of services for any continuous period of 12 months. As soon as you become registered for VAT you must collect VAT on all taxable supplies made to customers. This is known as your output tax. Whether you are registered or not, you will be charged VAT on the majority of purchases, on the same basis, by your suppliers, (this is your input tax).

information relating to VAT is available from the Revenue website:

www.revenue.ie/en/tax/vat/index.html.

- Once registered, you will receive notification from your local tax office. This will tell you:
 - a. The date on which your business is registered for VAT. From this date onwards you will have to charge VAT to all your customers on taxable supplies and account to the Revenue Commissioners for it
 - b. Your VAT number, which you will have to quote on all invoices, statements, credit notes etc.
- In certain circumstances, you may register for VAT before you begin to trade and while your turnover is below the threshold limits of registration. Doing so allows you to reclaim VAT paid on purchases of goods and services and may be of an advantage to you. In addition, you can apply for voluntary registration if you feel it is beneficial commercially (for instance, if you are losing business because customers will only deal with VAT registered traders).
- However, voluntary registration for VAT should not be done without professional advice.

- Normally VAT is operated on a two monthly basis. Your VAT liability for a two monthly period is the difference between your output and input tax which should be submitted on a prescribed return to the Collector General's office. Electronic filing of returns (on ROS) and payment of VAT liabilities may be required. Repayment can arise if your input tax exceeds your output tax and if you are in a permanent repayment position you may be allowed by Revenue to submit monthly VAT returns. The Collector General can also authorise that VAT returns can be made for longer periods of up to 12 months.
- In addition, statistical returns are required to be filed if your business carries out certain cross-border transactions.
- Certain activities are exempt from VAT (examples of such activities are certain financial services, medical services, educational services etc). Input VAT relating to VAT exempt activities is generally not recoverable.
- If you have any doubt as to whether your supplies are taxable, zero-rated or exempt, consult your tax adviser or local tax office.
- Input VAT is not recoverable on the purchase of most motor cars, or private expenditure, petrol, food and drink or entertainment.
- If you import goods into Ireland from outside the European Union, the VAT is normally payable at the point of entry before the goods are released by Customs. However, you may apply to participate in the deferred payment scheme, in which case the VAT is payable on the 15th of the month following the month of importation.
- Delayed payment of PAYE and VAT carries heavy interest and penalties and other penalties can also be incurred for the late submission of returns or failure to meet compliance obligations.

Further Information and Advice

- Your local Tax office – Contact Locator: <https://www.revenue.ie/wiclo/details.jsp>
- Leaflets issued by the Revenue Commissioners, in particular, the Guide to the Value Added Tax, and the Employers Guide to PAYE available to download on the Revenue website as set out above.
- The Employers Guide to PRSI - Booklet issued by the Department of Social Protection – available to download from the Department website: <http://www.welfare.ie/EN/Pages/employer.aspx>

General

It is a recipe for disaster to attempt to run a business without keeping proper accounts and records. In addition, for an Irish registered company, it is a Company Law requirement to maintain proper books of account. If your records are maintained properly they will:

- Provide you with essential management information on a regular basis
- Save you considerable expense and time when it comes to preparing your annual accounts.
- Satisfy the requirements imposed on you by the PAYE system and VAT
- The sophistication of the system will depend on individual requirements but it will, in any case, establish the flow of documents and their filing and retrieval within the system
- Allow you to realise the value of your business and satisfy the requirements of financial due diligence as part of an exit strategy.

Initially on starting a business it may be adequate to keep an analysed cash book, wages book, purchases book and petty cash book.

It is unwise to start with a sophisticated system until you have mastered the basics or unless you have competent in-house book keeping or accounting assistance.

There are many accounting and payroll packages currently available on the market which minimise the amount of work required in maintaining good accounting records. There are also many customised packages available depending on the nature of your business.

Bank and Cash

- One of the first steps in setting up a business is to open a bank account in the name of the business. This account should relate only to the business, it should never be confused with your personal account. Ask for statements to be sent to you at least monthly to enable you to do a monthly bank reconciliation which reconciles the balance per your bank statement to your management accounts information. Discuss with your bank manager, who should be allowed to sign cheques and the form of crossing to be used on your cheques to protect you from unauthorised endorsements.
- Your bank manager will want a copy of the Memorandum and Articles of Association and a Certificate of Incorporation before opening the account.

Control Information

As a business grows, it is vital that a strong financial control environment is implemented.

- Good planning and budgeting are ongoing requirements if the business is to survive and grow. In order to manage the business effectively, you must use your accounting and administrative systems to prepare regular (usually monthly) management accounts and compare these accounts with the original budgets. Many businesses fail because management do not fully understand how their businesses are performing. Management accounts are prepared not only for external parties such as your bank manager/ investors but more importantly to enable you to run the business on a day to day basis.
- At the end of each month, as a minimum you should:
 - Prepare a bank reconciliation
 - Update your cash flow projection and consider this in terms of your available funding
 - Update your business plan as required
 - Review and understand your total sales and purchases for the month
 - Compare the actual results with your projections
 - Carry out a physical stock check and compare result with figures shown on your records
 - Compile a list of debtors and creditors
 - Pay particular attention to your gross profit margin
 - Calculate the margin and make sure you understand why it differs from previous months and your projection
 - Attain a basic understanding of Revenue recognition to be aware that it is not always appropriate to recognise revenue when a sales invoice is raised.
- Make time every month to look at older overdue items on your debtors list and prepare an action plan to obtain payment from these customers. Obtain bank statements regularly and ask your accountant to advise you on other credit control procedures, particularly obtaining credit references on new customers. Cash flow is often a problem for growing businesses so invoice factoring may be a consideration.
- It is a requirement of the Revenue Commissioners that complete and adequate accounting records are kept and retained for a six year period.

Filing requirements

The basic requirement for all companies, whether trading or not, is to file an annual return (Form B1), with the CRO at least once in every calendar year.

Each company has an annual return date which is set when the company is registered. An Annual Return Date (ARD) of a company is the latest date to which an annual return must be made up. The annual return must be filed with the CRO within 28 days of the date to which it is made up.

As noted above, companies are required to keep proper books of account which give a true and fair view of the company's financial affairs. Companies are also required to disclose details of their accounts at the Annual General Meeting (AGM) of the company and to attach a copy of those accounts to the annual return filed with the CRO (in the cases of small and medium sized companies as defined, abridged accounts are only required).

The annual accounts and directors' report must be signed on behalf of the board of directors by two directors. In addition, there must be a certificate, signed by both a director and the secretary, certifying that the accounts and reports are true copies of those laid before or to be laid before the company's AGM.

Audit requirements

The basic requirement as outlined above is for a company to file a set of audited accounts with the CRO on an annual basis. However, in certain instances a company can avail of an exemption from the requirements of having its accounts audited. These conditions are set out in section 32(3) of the 1999 Act (as amended by the Companies (Auditing and Accounting) Act 2003 and the Investment Funds Companies and Miscellaneous Provisions Act 2006). The basic conditions are as follows:

In respect of the financial year concerned and the year preceding this:

- The company must be a company to which the Companies (Amendment) Act 1986 applies i.e. a Private Limited Company
- The amount of turnover of the company must not exceed €7.3 million
- The balance sheet total of the company is less than €3.65 million at the end of its financial year
- The average number of employees must not exceed 50
- The company must not be a parent company or a subsidiary company

Detailed information in respect of a company's filing requirements and the audit exemption are available on the Companies Registration Office website (www.cro.ie).

Your Board of Directors

In order for your business to grow successfully, it is critical that your company has an effective board of directors which evolves as the company develops. The board's role is to provide entrepreneurial leadership of the company while ensuring the business is subject to prudent and effective controls which enable the risks of the business to be assessed and managed.

An effective board:

- provides direction and a sounding board for management
- is accountable, particularly to those that provide the company's capital
- demonstrates ethical leadership, displaying – and promoting throughout the company – behaviours consistent with the culture and values it has defined for the business
- creates a performance culture that drives value creation without exposing the company to excessive risk of value destruction
- makes well-informed and high-quality decisions based on a clear line of sight into the business
- creates the right framework for helping directors meet their statutory duties under the Companies Acts and/or other relevant statutory and regulatory regimes.

For the board to operate effectively, it is important that it is led by a good chairman, who with the help of the executive directors and the company secretary, sets the agenda for the board's deliberations. The board agenda is primarily focused on strategy, performance, value creation and accountability, and ensuring that issues relevant to these areas are reserved for board decision. The operation of the board is typically set out in the company's memo and articles and/or the shareholders' agreement.

Directors will be more likely to make good decisions and maximise the opportunities for the company's success in the longer term if the right skill sets are present in the boardroom. This includes the appropriate range and balance of skills, experience, knowledge and independence. Non-executive directors should possess critical skills of value to the board and relevant to the challenges and opportunities facing the company.

Company law makes no distinction between executive directors (that is directors who are employees of the company) and non-executive directors.

The duties of executive directors extend to the whole of the business, and not just that part of it covered by their individual executive roles. The CEO is the most senior executive director on the board with responsibility for proposing strategy to the board, and for delivering the strategy as agreed. The CEO's relationship with the chairman is a key relationship that can help the board be more effective.

Executive directors have the most knowledge on the company when developing and presenting proposals and when exercising judgement on strategic matters. Constructive challenge from non-executive directors who will have wider experience outside the company is a very important contributor to the good governance of the company. Non-executive directors should be provided with high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, board meetings.

For further information on the effective operation of boards of directors and corporate governance matters generally, please refer to the following:

KPMG's Audit Committee Institute : www.auditcommitteeinstitute.ie/overview/index.htm

Financial Reporting Council: www.frc.org.uk/corporate/index.cfm

Your Professional Advisers

Choosing the right professional advisers can be crucial to the success of your business. These advisers will typically include your accountants, tax advisers, solicitors, patent and IP advisers, corporate finance experts and employment specialists.

Their experience and expertise in dealing with other growing companies may save you hours of time and thousands of euro. If they are the right advisers for you, they will be prepared to assist your enterprise with timely and constructive advice - take it and use it.

- Choose advisers who have experience in the type of business or at least in the business area in which you intend to operate. You want to learn from your advisers' experience, not spend your time teaching them about your business.
- Ask for the basis that fees will be charged on. Remember the cheapest is not always best - it may be worth paying extra for a better service.
- Choose an adviser with adequate resources to meet your needs. What is adequate will depend on you, but do not use a 'one-man-band' if you expect a limitless range of expertise. There is only so much one person can be expert in.
- Use your adviser sensibly: they are likely to charge on a time basis so do not use their time unnecessarily. On the other hand, be sure to use your advisers if they can do work more efficiently and cheaply than you. Using their services where appropriate, will free you to concentrate on your core business.
- In using advisers, look for membership of the appropriate professional body. This is your guarantee of quality of work and source of redress, should any dispute arise.

At KPMG, we advise many ambitious start up and high-growth companies. We have the experience to assist you in:

- Minimising the time you spend dealing with necessary but non-core tax and accounting matters
- Maximising incentives available for your business (e.g. R&D tax credits, grants)
- Dealing with the complexity of remunerating founders and key talent efficiently
- Keeping on-top of your compliance obligations
- Dealing with banks and other financiers
- Preparing your business for fundraising or sale
- Minimising corporate taxes and maximising value
- Negotiating foreign tax matters, and
- Managing your risks and controls.

We have the experience and know the challenges you will face in realising your ambitious business plans.

If you would like to know more please contact any member of the KPMG team listed below.



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cutting through complexity

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