



A&L GOODBODY
SOLICITORS

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BUSINESS REVIEW 1998/99

Dealing With The Success Of Our Economy

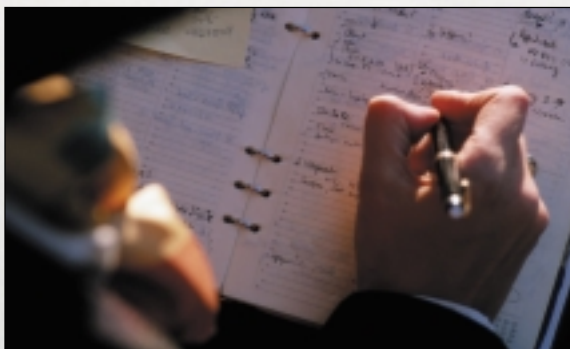


Frank O'Riordan
Managing Partner

The results of the A & L Goodbody Business Opinion 99 Survey indicate a degree of concern among Irish business leaders about managing wage expectations and public sector expenditure. The survey also reflects significant concern about the gaps in infrastructure, perceived by many as seriously restricting the expansion of their businesses. (See pages 4 and 5 for full details of the A & L Goodbody Business Opinion Survey 99). That these issues are at the top of the Irish business agenda will not come as a surprise to those of us who manage businesses. We must hope and believe that those who manage on a 'macro' level will assign a similar importance to them on the national agenda and will deliver equitable and visionary solutions.

Underlying the concern about wage inflation, skills shortages and infrastructure gaps are the more fundamental issues of the social and economic structure of our society, such as work and reward, and quality of life. As we face in to the new century, it is clear that we will have to take a more imaginative approach to sustaining the economic progress we are currently experiencing. It may be that dealing with our success might prove to be just as challenging as achieving it in the first place.

On the employment front, legislative developments together with the pressures in the labour market will lead to radical changes in traditional employer/employee relationships. More than ever before, employers will find that flexibility, consultation and employee shareholding will prove to be the key to attracting and retaining a skilled and valued workforce. On page 11, Ian Moore, Partner in our Employment Law Unit traces some key legislative developments which are paving the way for this change.



The feedback was unequivocal in relation to the strain on the country's existing infrastructure system. There is a patent need to upgrade the existing infrastructure. Notwithstanding this, competing demands for use of public expenditure jeopardises the provision of this infrastructure. Public Private Partnership (PPP) offers an obvious solution to this dilemma and the Government has recently announced a £600M. package of proposed PPP pilot projects. The introduction of the PPP concept is a significant turning point. No longer will the Government shoulder full risk and responsibility for the provision of capital assets in the communications,

utilities, healthcare, transport and other sectors. Instead, private sector resources and expertise will be harnessed where there will be appropriate risk and reward to ensure that services of a sufficient standard are provided to the public at large. If managed and supported properly, this procurement method could be a catalyst for filling the infrastructure gap.

A key factor in making PPP work for Ireland will be ensuring that the proper legal environment is in place before large-scale projects are underway. In this regard, we should learn from the UK PFI (Private Finance Initiative) experience. Legislative changes will be required in certain areas and these should be initiated now. In particular, a fast-track planning process for PPP projects is urgently needed. While safeguarding the public interest, this should ensure that potential PPP projects are not rendered economically nonviable to private sector operators as a result of unacceptably long delays in bringing projects to fruition.

We believe that the next financial year will prove to be a landmark year for our firm. Our move to a custom built headquarters in Dublin's Financial Services Centre later this year represents a very significant step in our strategic development plan. Our goal is to ensure that in all our service areas, the quality of our advice is making a real difference to our clients and their businesses. In our new surroundings we will have significantly greater scope to continue the expansion and development of our range of specialist advisory services. In the following pages of this report you will learn more about our new facilities on the Quays and about our approach to the development of new services for business.

I hope you will also find plenty of other interesting reading and comment about current development in A & L Goodbody and in the wider legal and business environment.



Frank O'Riordan
Managing Partner
A & L Goodbody



A & L Goodbody Business Opinion 1999 - The Results

Wage Agreement Top Priority For Government

Almost half of Irish business leaders believe that control of wage inflation should be the Government's top priority over the next 12 months. In the A & L Goodbody Business Opinion Survey 1999, almost one-third of Ireland's top 400 businesses stated that they believed that maintaining Partnership 2000 and national wage agreements should be the top priority for the current government. A further 18% identified control of public sector pay as top priority. Other issues of concern were transport, control of public expenditure, infrastructure and housing issues.

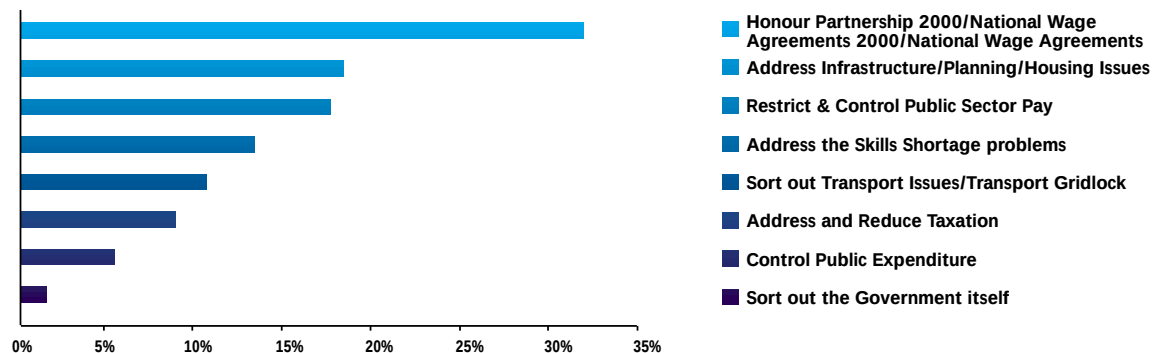
The poll asked businesses what the Government should not do over the next year. Again, the overwhelming focus was on the issue of not conceding to public sector pay outside Partnership 2000. EU social/labour regulations were cited by a further 18% of respondents as a potential danger zone over the next 12 months.

Over one-third saw property prices as the principal threat to the economy over the next 12 months. Other areas for concern included new employment legislation, the increasing skills shortage and spiralling property prices.

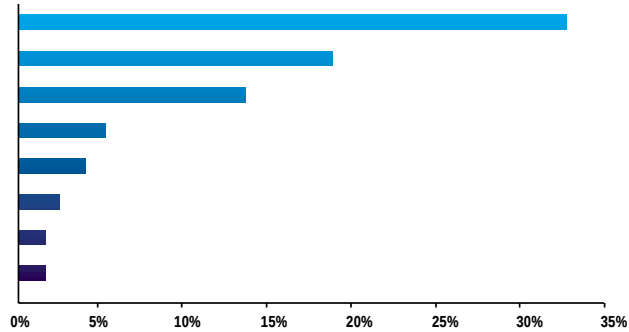
Wage inflation, poor infrastructure and the burden of new employment legislation were seen as the greatest threats to continued economic progress over the next 12 months. When broken down over industry sectors, respondents in the manufacturing, distribution/retail, construction and transport and communications sectors saw wage inflation as the greatest threat to economic growth. In the services sector, poor infrastructure and skills shortages emerged as the greatest threats. Almost half of the respondents from the computer industry saw the skills shortage as the greatest threat.

A & L Goodbody commissioned MRBI to survey Ireland's top 400 business leaders in May 1999

What Should the Government's Top Priority be?

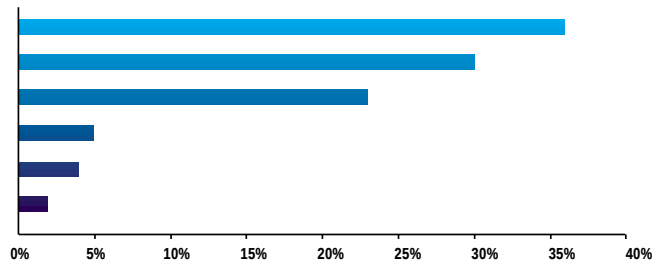


What the Government should not do over the next 12 months



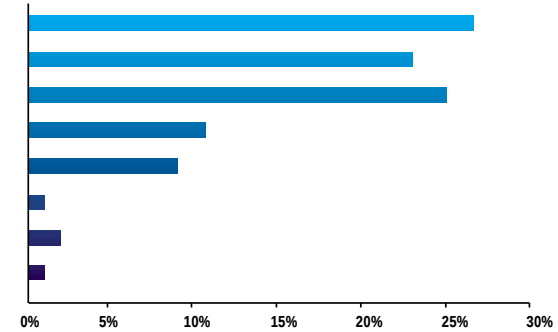
- Concede to public sector pay outside Partnership 2000
- Increase Taxes/fudge wage agreements
- Enforce EU Social/Labour regulations
- Allow inflation to rise/trigger interest rate increases
- Impose Carbon Taxes/petrol duties/energy taxation
- Overspend/spend stupidly and freely
- Increase Car tax/should harmonise car taxes/prices
- Interfere with mortgage relief/curb rise in property prices

The Greatest Threat to the Economy over the next 12 months



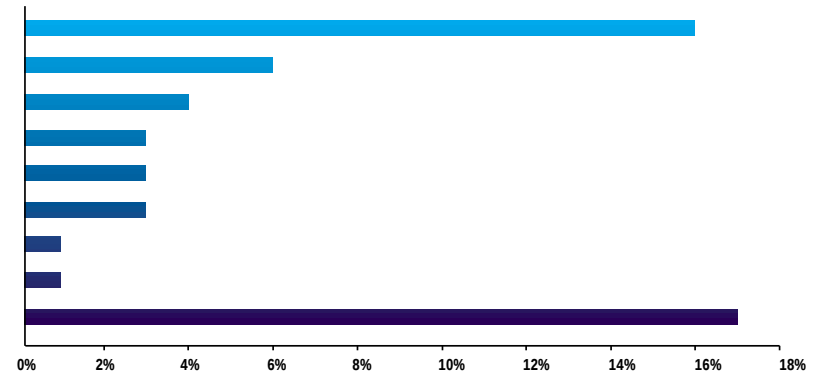
- Wage Inflation
- Skills Shortage
- Poor Infrastructure
- Property Prices
- New Employment Legislation
- State Regulation

The Next Greatest Threat to the Economy over the next 12 months



- Wage Inflation
- Skills Shortage
- Poor Infrastructure
- Property Prices
- New Employment Legislation
- State Regulation
- Others
- Don't Know

Laws to be Enacted/Repealed by the Oireachtas



- Lower Public Expenditure/Impose EU laws re. public/social issues 2000/National Wage Agreements
- Speed up planning permission for private/retail planning
- Price controls on Private/Commercial Property
- Enact a law to allow refugees/protect refugees' rights
- Repeal Grocery Prices Order
- Lower all taxes/amend tax brackets/deal with tax issues
- Revisit Laws relating to Crime/Stop Revolving Door
- Improve Infrastructure/better use of public/private partnership
- Don't Know

The IFSC - Our New Location

In October 1999, the firm will move to a new purpose-built 100,000 sq. ft. office complex, overlooking the River Liffey on North Wall Quay in Dublin's IFSC. (International Financial Services Centre).

Designed by award-winning architects Scott Tallon Walker, the building consists of six stories over basement and will provide state of the art facilities and systems for clients and staff.

The design incorporates a glass frontage and large atrium in order to maximise natural light and to provide an airy and spacious feel. With full wheelchair access throughout, the building incorporates environmentally friendly features and systems wherever possible.

About The IFSC

Established by the Irish Government in 1987, the IFSC has developed into a world class location for a wide range of financial services. Over 800 financial services projects including banks, mutual funds, corporate treasury, and captive insurance projects are licensed to trade in the IFSC. It also houses professional services firms, domestic banks and other leading blue chip organisations.

A total of 1.2 million square metres of top quality office accommodation has been developed in the original 40 acres of the IFSC. This area has now been extended to include other parts of the Dublin Docklands area. An additional 62,000 square metres of office accommodation is currently under construction, part of which will be occupied by the new A & L Goodbody headquarters.



Mr Jed Pierse, MD, Pierse Contracting with Frank O'Riordan and Tom O'Connor, Head of Property at the Topping Out ceremony for the new A & L Goodbody Building



1998/1999 - A Year In Review

M & A Activity

The financial year 98/99 was been extremely busy on the M & A front. Indigenous companies have been active in the domestic market, the UK market and in some cases further afield. It has also been a busy 12 months on the inward investment front. Changes in the capital gains tax regime have helped to stimulate activity in this market and the outlook for the future remains good.

Highlights of the year included:

- | |
|---|
| • Advising Irish Permanent in relation to its merger with Irish Life. This was the biggest corporate merger in the history of the State. The deal was valued at IRE3bn. |
| • Advising Allied Domecq on the sale of Cantrell & Cochrane to BC Partners. The deal was valued at IRE580m. |
| • Advising on a series of US acquisitions for Elan Corporation, valued at over IRE900m. |
| • A & L Goodbody acted in one-third of all IDA assisted US greenfield projects in Ireland during 1998. |
| • Advising Rolls Royce in connection with a joint venture with Pembroke Capital to create the world's 6th largest aircraft leasing company. |
| • A & L Goodbody advised on deals representing 75% of the total value of the top 10 Irish corporate deals of 1998. |

Property

The market for commercial property has remained extremely active throughout the last twelve months and the indications are that this will continue. During the past twelve months A & L Goodbody advised on deals which achieved record prices in the commercial, agricultural and residential sectors.

The buoyancy in the retail sector has been particularly noticeable with UK retailers continuing to develop their presence in the Irish market. In the grocery sector, the introduction of new planning guidelines on out-of-town superstores has curtailed the greenfield development plans of certain major UK multiples. This increases the likelihood that one of the major Irish chains will be targeted for acquisition. European and US retail giants with development plans for Ireland have been frustrated by the scarcity of prime location space.

One other interesting feature in the marketplace has been the competition between private investors and institutions. This has contributed to a significant increase in property prices and in some instances, has led to institutional investors being priced out of the market.

A notable development in the residential sector is the extension of the 20% capital gains tax rate to development land zoned for residential purposes. This should result in the release of more residential developments on to the property market.



Competition Law - Regulation Versus Stimulation?

A & L Goodbody's unit is the largest of its type in Ireland and is one of a small number of specialist teams operating in this field. The unit's client base includes telecoms, FMCG, beverages and transport companies and governmental bodies including the Latvian Government.

The unprecedented growth in the demand for specialist advice on competition and regulatory issues results largely from the introduction of a range of new statutory and regulatory bodies. Regulatory authorities have wide-ranging powers. The Competition Authority, for example, carried out a number of dawn raids on business premises on foot of allegations about unfair trading practices. The Authority's powers permits it to examine many company files, often without prior notice. Penalties for breach of competition law include fines and prison sentences.

Vincent Power, head of A & L Goodbody's unit, believes that there is a danger that Ireland is creating too many regulators. Each has specific objectives and rules but the potential for conflicting decisions exists. Divergent regulation leads to confusion and high compliance costs.

Ireland and the EU generally, may need to rethink the approach to competition regulation. Vincent Power believes that we are in danger of over-regulation rather than seeking to stimulate competition. "First, the system does not encourage companies to be competitive: - instead it looks for culprits after an offence has been committed. Secondly, we now have situations where mergers and joint-ventures have to be regulated by various sectoral and general regulators with the possibility of divergent results." The Government's Competition & Mergers Review Group, which is advised by A & L Goodbody, should provide an opportunity for change.



Taxation And The Future Of The IFSC

In July 1998 the European Commission and the Irish Government agreed on the phasing out of the special tax regime for the Irish Financial Services Centre (IFSC), the Shannon Airport Zone, certain foreign traded services and other manufacturing activities. Companies approved before that date qualify for the preferential tax rate until 2005, and manufacturers until 2010.

Since its establishment in 1987 the IFSC has achieved critical mass and is firmly established as a leading international financial services location. The introduction of the 12.5% rate of corporation tax will preserve the attractiveness of the IFSC as a location. Ultimately the 12.5% rate will be nation-wide on trading income and this will lead to an increase in the number of activities coming into Ireland, especially in the areas of financial services, manufacturing and sales. The new rate of corporate tax for most business profits will copper-fasten the viability and competitiveness of Ireland as an investment location.

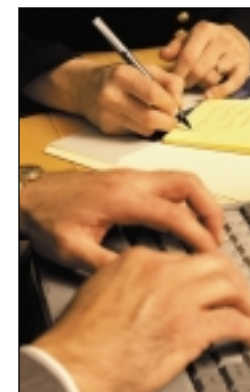
Employment : The Future Is 'Family Friendly'

The volume of work handled by our Employment Law Unit has doubled in the past four years. This is, in large measure, attributable to the general economic upsurge, but it is also due to the nature and pace of legislative change coming through and affecting the employment framework.

In keeping with its obligations, Ireland has implemented a volume of employment related EU directives which have emerged during the past decade. In 1989 the Safety, Health and Welfare at Work Act was implemented. With it, for the first time, employers were assigned responsibility not simply for the safety of their employees, but also for their health and welfare. Since then we have seen the introduction of amended maternity legislation, the Working Time Act, the introduction of parental leave, and most recently the passing into law of the Employment Equality Act.

All of these pieces of legislation have, in different respects, increased the responsibilities and duties imposed upon employers. The introduction of the working time legislation in particular, signifies a new approach which we believe will dominate the new decade. The focus is moving on from simply doing what is required, to taking a more pro-active interest in one's employees. The concept of "reconciling work and family responsibilities" has been put on a firm legislative footing, effectively requiring employers to look beyond the narrow confines of the workplace.

The indications from Europe are that the framework of employment legislation is unlikely to undergo further fundamental change in the near-term but in a climate where skills shortages are becoming an issue we expect to see the focus move towards positively encouraging employers to provide flexible working arrangements ultimately aimed at creating "family friendly" working environments.



Financial Services Regulation: a level playing field at last

Financial services regulation and compliance in Ireland has become complex but recent legislation plays a vital part in ensuring investor protection. Domestic legislation dovetails with other EU jurisdictions to form a network of mutual recognition within EU borders. The ability to 'passport' authorisations obtained in one EU country across other EU countries has contributed significantly to opening up the European market to financial service providers. The enactment of the Investors Compensation Act, which applies to banks, investment intermediaries, insurance intermediaries and stockbrokers has led to increased protection for investors, ensuring that appropriate compensation arrangements are in place.

In response to the increased legislation in the area of financial services compliance, A & L Goodbody has set up a Financial Services Regulation and Compliance Unit. Headed by Kevin Allen, the unit advises clients on meeting and managing their obligations in this complex area.

Litigation

We continue to be very litigious in this country and the firm's Litigation Department has expanded to meet this demand. A very considerable amount of work done in the Department however, relates to dispute resolution generally, the predominant aim being to achieve a win/win situation at an early stage. Regrettably, the cost of litigation continues to rise, in spite of the criticism attracted by virtue of the recent Tribunals of Inquiry. The publication of the sixth report of the Working Group on a Courts Commission headed by Ms. Justice Denham, and the attempt to make the judicial system more efficient is very welcome. However, access to the courts is clearly being hampered by the absence of Judges inter alia on Tribunals of Inquiry.

There is, we believe, a mounting concern at the increased number of these Tribunals of Inquiry given their quasi-judicial nature and the effect of press comment in relation to their functions. It will be readily appreciated that the reputation of any party appearing before such a forum is subjected to uncurtailed media comment which is often entirely disproportionate to the issue being investigated. This is perhaps inevitable given the political parentage of such tribunals and the immense media interest in the minutiae of its deliberations.

We are clearly entering an age where massive claims are made in respect of product liability and hundreds, (and in some cases) potentially thousands, of cases being brought on the same set of facts. This is a trend which has been clearly marked in the United States for some time now and we are seeing its adoption here.

Our People

With 150 new appointments at the firm over the past 18 months, A & L Goodbody employs approximately 430 people and is Ireland's largest law firm. The pace of growth in the firm and the refocusing of its range of services, are a reflection of growth in the economy as a whole and the increasingly sophisticated nature of business in Ireland.

New Appointments:

- Kevin Feeney has been appointed Partner and is head of the Public Private Partnership\Projects Unit. He is a chartered engineer and qualified solicitor. Kevin was previously with Linklaters and Alliance, the London law firm, where he worked predominantly on large-scale UK PFI projects. The PPP Unit advises lenders, contractors and government bodies in relation to PPP in the Republic and PFI in Northern Ireland. The unit has recently advised on the first of the five schools in Northern Ireland which are being procured under the PFI.
- Mary McKenna has been appointed Partner in the Mutual Funds Group. She advises UK and international clients on all aspects of establishment and management of mutual and other types of funds. The Funds Group is the market leader in Ireland in terms of the number of funds advised and the value of assets represented by those funds.
- Jim Trueick has been appointed Partner and is head of the firm's Employment Law Unit. Widely experienced in all aspects of employment law, Jim has a particular interest in acquired rights, employment litigation and equality/discrimination, and has lectured and written extensively in the area.

New Directors at the firm include Kevin Allen (Financial Services Compliance), Emer Moriarty-Crowley, (Technology Law) and Fiona Thornton, (Share Schemes).

Geraldine East joins the Media & Entertainment Unit as a Consultant. Based in our London Office and specialises in entertainment law, particularly film, Geraldine was formerly a partner in the London firm of Marriott Harrison. Siobhan Downey, Joins the Commercial Department as a Consultant, specialising in M&A and general corporate work.



Frank O'Riordan with new partners Jim Trueick, Mary McKenna and Kevin Feeney

New Units

Technology law

The Technology Law Unit was set up ten years ago and since then has established a breadth and depth of experience unrivalled in Ireland. Technology has developed at pace in recent years and the unit has been continuously monitoring these developments. This dedicated team can respond to the rapidly changing and expanding advances in technology and provides up-to-date advice in relation to legal issues in this area.

The Technology Law Unit has developed in response to client needs. Ten years ago clients typically required advice in relation to software and hardware contracts. Now the focus is on key areas of Information Technology, Intellectual Property, Internet Law, e-commerce, Telecoms Law and Y2K as well as the issues of convergence of communications technology, M&A and corporate financing. With a team of 18 specialists headed by Partner, David Sanfey, the unit is the largest in this field in Ireland.

For further information see our website (www.algoodbody.ie/techlaw).

Healthcare Unit

The Healthcare Unit focuses on clients in the pharmaceutical, biotechnology and medical equipment manufacturing industries and on hospitals, insurers and other medical and healthcare areas. The Unit is cross disciplinary, combining relevant expertise in the areas of litigation, commercial law, intellectual property, product liability, constitutional law and employment law.

The Healthcare Unit recently advised Dublin's three maternity hospitals, the Coombe, the Rotunda and Holles Street on the introduction of a new 'babytagging' system which will provide these hospitals with the latest security system for new-born infants. The unit was recently engaged to advise the National Disease Surveillance Unit. Margaret Muldowney is Director of the unit.

Share Schemes Unit

In today's climate, attracting and retaining a skilled workforce is a key issue for employers. As a result, there is a much greater emphasis on structuring competitive salary packages with built-in rewards for loyalty and productivity. Employee Share Option Schemes are a very effective and tax efficient means of introducing such non-salary benefits into the remuneration package. Introducing a specially tailored share option scheme involves employees as shareholders in a company and links the interests of employer and employee. As stakeholders in the company, employees gain a direct benefit from the performance of the company. Fiona Thornton is Director of the Unit.

The Legal Year In Review

Regulatory compliance has been high on the legislative agenda over the last 12 months. In this brief review, Paula Reid, Director of Know How and Education at A & L Goodbody, comments on some of the main legislative developments.

In August 1998 the Working Group on Company Law, Compliance and Enforcement was established under the chairmanship of Michael McDowell, SC, to review the Company Law Enforcement System. The brief was to consider the ways in which compliance and enforcement of company law could be improved and to examine how company legislation could be monitored and updated in a coherent fashion. Published in April, the McDowell Report proposes to increase penalties imposed on companies for breach of their Companies Acts compliance obligations in regard to the filing of returns and for more serious offences such as fraudulent and reckless trading.

The report also recommends the establishment of an Office of Director of Corporate Enforcement. This would take charge of the prosecution of summary offences under the Companies Act and assist in the preparation of cases of a more serious nature. Finally, the report favours ongoing amendment of company law whereby a company amendment act will be produced at least every second year.

This year's Finance Act, subject to some exceptions, renders all Irish incorporated companies tax resident in Ireland. This will apply to all companies incorporated on or after 11th February 1999 and to companies incorporated before that date as on and from 1st October, 1999. The Finance Act 1999 also introduces some additional reporting requirements for Irish incorporated non-resident companies.

Provisions to compliment the changes in tax residence rules appeared in the Companies (Amendment No. 2) Bill, 1999. This Bill introduces provisions for the following: to make it a condition for incorporation that every company will carry on an activity in Ireland; to require all Irish resident companies either, to have one Irish resident director, or a £20,000 bond, and to limit to 25 the number of directorships which any one individual may hold. The intention is to prevent perceived abuses whereby companies with little or no connection with Ireland are incorporated in the state.

Regulation of the financial services sector is also under review. The Implementation Group to advise the Government on the establishment of a single regulatory authority presented its final report to the Minister for Finance in May. The report has not yet been made available to the public. It appears however, that the Group is divided. Some members favour a new regulatory authority for the financial services industry which would be separate from the Central Bank of Ireland. The remainder favours the establishment of a new authority within the Central Bank. It remains to be seen how the Minister will respond, but changes of some kind to the existing regulatory structure appear likely.

Launched in 1997, the A & L Goodbody website has in-depth information on the firm and comprehensive guides to areas such as inward investment, taxation, technology and legislation. Content is regularly updated, providing up to the minute legal news and opinion with a comprehensive search facility.

A major feature of the original site is "Doing business in Ireland", a section dedicated to providing information on inward investment and explaining the intricacies of Irish corporate and taxation law. The site was recently rebuilt and relaunched to include many new features, including a Technology Law section.

