ervia

Annual Report and Financial Statements 2018

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Strategic Report

Introduction

We are a commercial semi-state company providing the strategic national gas and water infrastructure and services that underpin the growth of the Irish economy.

Through our regulated business, *Gas Networks Ireland*, we build and operate one of the most modern and safe gas networks in the world. *Irish Water*, our other regulated business, is responsible for the operation and maintenance of Ireland's water and wastewater assets. Our third business, *Aurora Telecom*, provides high quality dark fibre broadband infrastructure.

At Ervia we have a pivotal role to play in enhancing the environment, leading the transition to a low carbon energy system, protecting precious water resources and increasing resilience.

Reporting Approach

Irish Water is a subsidiary of Ervia under the Companies Act 2014. However, due to its share ownership structure (refer to note F29 on page 130), Irish Water does not currently meet the definition of a subsidiary for accounting purposes under IFRS and therefore cannot be consolidated with the audited Financial Statements as included on pages 81 to 147 of this Annual Report.

However, from a governance perspective, the Ervia Board and Executive Team are responsible for the performance of Irish Water and therefore the combined financial results are presented above. Ervia's summarised financial information (including Irish Water) is presented in the Financial Review on page 35.

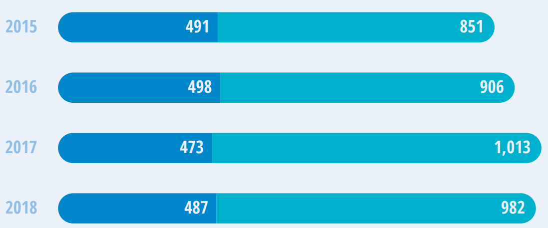
Financial Performance

	IRISH WATER	GAS NETWORKS IRELAND	CENTRAL SERVICES	TOTAL ERVIA
Revenue	€982m	€487m	-	€1,469m
Profit Before Income Tax and Exceptional Items	€157m	€149m	(€9m)	€296m
Capital Expenditure	€683m	€143m	-	€826m
Employee Numbers	822	549	390	1,761

Irish Water surplus re-invested to fund critical infrastructure projects.

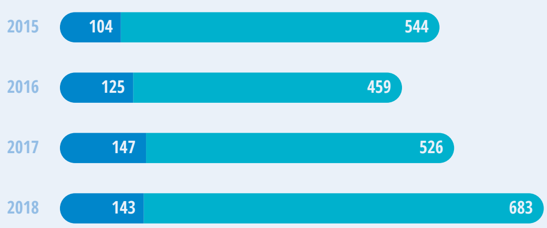
REVENUE €m

GNI Irish Water



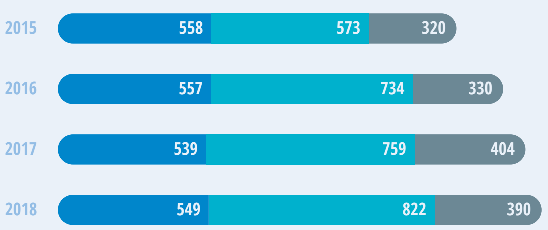
CAPEX €m

GNI Irish Water



EMPLOYEES (as at year end)

GNI Irish Water Central Services



DIVIDENDS €m

Group

Highlights

Irish Water

Vartry Pipeline

Construction completed on a 4km pipeline to secure the transfer of treated water from Vartry to Callowhill pumping station, successfully replacing the 150 year old Vartry tunnel, and contributing to the security and supply of safe and sustainable drinking water to over 200,000 people in the Greater Dublin Area.

Capacity and Resilience

The Crisis Management Team was mobilised for long and sustained periods during the year. Our crews worked tirelessly on the ground to maintain water supplies during the severe blizzard and freezing temperatures of Storm Emma. We also faced the worst drought conditions in Ireland since records began, maintaining supply and minimising disruption.

Water Conservation

The extended dry conditions during the summer resulted in unprecedented depletion of ground and surface water supplies. During the summer we increased public awareness of the key role conservation plays in the efficient management of water as a precious resource.

Water Supply Project – Eastern and Midlands Region

We published our report on the options appraisal for the Water Supply Project and briefed the Joint Oireachtas Committee.

Leakage Management System

The rate of leakage remains unacceptably high and it is a complex issue to solve. In 2018 we developed a new Leakage Management System which will allow us to gather accurate data on daily leakage levels. This will help us to locate and repair the worst areas of leakage, saving the greatest volume of water possible.

Strategic Funding Plan

The Minister for Housing, Planning and Local Government approved Irish Water's €11.1 billion Strategic Funding Plan.

Water Quality Improvement

We are now halfway to making Cork Harbour sewage free (reducing raw water discharges by the equivalent of 20,000 wheelie bins a day). Through an overall investment of €144 million in the Cork Lower Harbour Main Drainage project, our goal is to reduce this by a further 20,000 wheelie bins by the end of 2021, ensuring that wastewater from areas across Cork Lower Harbour is fully treated before being discharged to the sea.

New Water Treatment Plant in Kerry

The Kerry Central Regional Water Supply Scheme was awarded Engineers Ireland – Engineering Project of the Year. This scheme will provide a safe and secure supply of water to over 62,000 people in Kerry.

Gas Networks Ireland

Compressed Natural Gas

Compressed Natural Gas is a proven technology that is used as a transport fuel in natural gas vehicles. We continued to develop out planned network of Compressed Natural Gas filling stations, opening Ireland's first publicly accessible high capacity fast fill station in Dublin Port.

Securing Major Investment

We secured €100m financing from the European Investment Bank, endorsing our strategy to provide Ireland with a secure and competitive energy supply and to decarbonise the energy system. This facility will underpin a total €205m investment designed to help us further modernise and extend our network.

Fibre Optic Link

Aurora Telecom began work on the final leg of our second phase of the Dublin to Cork fibre optic link, as part of a €35m data infrastructure investment plan.

Carbon Capture and Storage

We announced that we were undertaking a feasibility study into the potential to use the depleted Kinsale Head gas field as a CO_2 store in order to reduce Ireland's CO_2 emissions by up to 2.5 million tonnes per annum (4% of Ireland's total emissions).

New Connections

The gas to Center Parcs project in Co Longford facilitated both domestic and commercial connections to customers along the 27 km pipeline route.

Ireland to Scotland Interconnector

The full twinning and commissioning of the new 50km gas pipeline between Cluden and Brighouse Bay in Scotland was completed. This reinforces security of supply across the island of Ireland, and boosts the operational flexibility of the Irish gas network which is essential to providing backup to intermittent renewable electricity generation.

Our People

We welcomed new apprentices to our Apprenticeship Programme, which is delivered in partnership with SOLAS.

Gas Advocacy Campaign

Our "Progress Naturally" advertising campaign launched across all channels on December 26th. The campaign promotes the important role natural gas, renewable gas and Gas Networks Ireland will play in a cleaner energy future.

Corporate Social Responsibility

For the third consecutive time we achieved re-certification to the Business Working Responsibly Mark from Business in the Community Ireland.

BUSINESS WORKING RESPONSIBLY

Decarbonisation

Gas Networks Ireland's first biogas injection point was commissioned in Cush, Co Kildare.

The Chairman’s Report

Ervia delivered a solid financial performance in 2018, continuing to be a strong contributor to the Irish economy through payroll, dividends, taxes and purchases from Irish suppliers.

Tony Keohane
Chairman

"...bringing total dividends paid to €1.7 billion since the establishment of Bord Gáis Éireann.

Financial Performance

As Chairman of the Board I am delighted to present Ervia's Annual Report and Financial Statements for 2018.

Ervia delivered a solid financial performance in 2018, with revenue of €1.5 billion. We also continued to be a strong contributor to the Irish economy through payroll, dividends, taxes and purchases from Irish suppliers. In 2018 Ervia paid a dividend of €139 million to the Exchequer, funded by Gas Networks Ireland, bringing total dividends paid to €1.7 billion since the establishment of Bord Gáis Éireann.

Capital Delivery

In 2018 Gas Networks Ireland invested €143 million in critical infrastructure on the gas network and continued to grow new connections and actively advocate for natural gas, highlighting its role in transitioning to a low carbon economy. In 2018 we completed the twinning and commissioning of the pipeline to Scotland. It will reinforce security of supply and the increase operational flexibility of the network.

During the year Irish Water invested €683 million to future-proof the network, address compliance issues and support economic and spatial development. For example we are investing in the Greater Dublin Drainage Project which will provide a new regional wastewater treatment facility and associated infrastructure to serve the population of Dublin, Kildare and Meath. It is a key part of our investment in wastewater infrastructure for the Greater Dublin region and will facilitate growth in this area, while also protecting public health and safeguarding the environment.

Likewise we continue to invest in reducing leakage from the system. As a result of the leakage reduction activities the volume of drinking water lost during 2018 has been reduced by approximately 73.8 million litres per day (18 mld customer side savings and 55.8 mld public side savings).

Partnership

Throughout 2018 Irish Water continued to work with its Local Authority partners to deliver water services and to transform the service to a modern public utility. This is a complex transformation project, which will incorporate new responsibilities, processes and staffing to meet the country's changing needs for water services. I recognise that integrating water services staff from 31 Local Authorities into the Single Public Utility organisation is an ambitious programme. It is however a necessary step to provide efficient and effective water and wastewater services.

Synergies

We are delivering significant benefits and efficiencies for the people of Ireland. I believe that using our combined experience and expertise across our operating companies allows us to realise these synergies and continue to grow our business. Our Business Services organisation was established in 2018, within Ervia, to leverage shared capability and capacity across the business. In 2019 we will focus on delivering further operational efficiencies – optimising the supply chain and continuously improving our processes.

Weather Events

The Irish Water Crisis Management Team was mobilised for long and sustained periods over 2018 to proactively manage a number of national weather events, including Storm Emma and the summer drought, and network disruption incidents. The effort required was a significant draw on the organisation. Irish Water worked closely and collaboratively with the Local Authorities, other partners and agencies, to ensure the water and wastewater network remained operational during these events and to restore services to homes and businesses as quickly and efficiently as possible.

Chairman's Statement (continued)

Water supplies in the reservoirs only returned to safe levels in November following the unprecedented depletion of raw water supplies throughout the summer.

The gas network operated smoothly with no outages during the winter storms. The warm summer brought lower levels of wind which meant that renewable generation fell and the demand for gas to generate electricity hit an all-time high.

Corporate Governance

Across the year the Board continued to prioritise corporate governance in line with best practice, emerging regulation and trends. We comply with the applicable provisions of the Code of Practice for the Governance of State Bodies. Risks are formally reviewed and monitored on an ongoing basis to ensure appropriate mitigations and controls exist. As Chairman, I am satisfied that the appropriate internal controls exist and are managed effectively to meet our governance requirements.

The EU General Data Protection Regulation (GDPR) is the most significant change in data privacy regulation in 20 years. The regulation fundamentally reshapes the way in which data is handled. Over the course of the first half of 2018, we prepared for the introduction of GDPR in May, and I am confident that appropriate systems and processes are in place across the organisation.

Finally the Board is committed to ensuring that the strategic objectives and operations of Ervia and its businesses are both sustainable and socially responsible. In 2019 we will continue to innovate to support these commitments through both Gas Networks Ireland and Irish Water, ensuring that we are good corporate citizens.

Acknowledgements

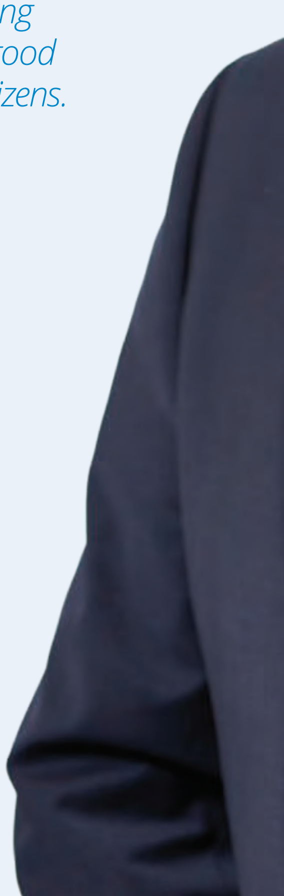
I would like to thank the Ministers and officials in the Department of Housing, Planning and Local Government and the Department of Communications, Climate Action and Environment for their support throughout the year. I would also like to express my gratitude to the officials at NewERA whom we deal with on governance matters on a regular basis.

I express my appreciation to Mike Quinn who stepped down as Ervia CEO in early 2019 and to Jerry Grant who retired as Managing Director of Irish Water in September 2018. They both contributed significantly to the development of the organisation. I look forward to working with Cathal Marley who takes over as Ervia Interim Chief Executive Officer and I welcome both Eamon Gallen as Acting Managing Director of Irish Water and Denis O'Sullivan as Managing Director of Gas Networks Ireland and wish them well in their new roles. Finally, I thank my colleagues on the Board and the Executive Team for their ongoing commitment, passion and effective governance of the business in 2018.

As Chairman I recognise the enormous contribution and dedication of the people that work in Ervia, Irish Water and Gas Networks Ireland who, along with our partners, collectively deliver gas and water services to the businesses and households of Ireland.

Tony Keohane
Chairman

"*In 2019 we will continue to innovate to support these commitments through both Gas Networks Ireland and Irish Water, ensuring that we are good corporate citizens.*



The Chief Executive Officer's Review of 2018

A huge amount was delivered by our people and partners in 2018. We transported 74.4TWh of natural gas safely and securely through the network, serving 700,000 businesses and households. We operated nearly 7,000 water and wastewater assets, including treatment plants, pumping stations, reservoirs, and 88,000km of pipe networks to supply water and wastewater services to 1.6 million homes and 172,000 businesses. We managed our way through storms, snow and drought conditions while delivering a large capital investment programme. What made this possible is our collective commitment to enhancing the health and quality of the life of our communities, protecting our environment and enabling economic development.

Mike Quinn
Group Chief Executive Officer

In 2018 we invested €826m in critical gas and water network infrastructure and services.

Creating Value for the People of Ireland

We attach great importance to ensuring that our investment policies are aligned to the national strategic outcomes outlined in the National Development Plan (2018–2027) and the wider infrastructure policy of Government.

I am personally very conscious of the importance of balancing economic objectives such as profitability and shareholder value creation, alongside socio-economic and environmental objectives, in order to promote sustainable long-term value growth. At Ervia we focus on reducing overall costs and realising efficiencies. In 2018, we delivered operational savings of €29.6m.

How we create value over the longer term is impacted by macro trends and developments in the wider economy, some of which are outlined on pages 18–19. These create uncertainty for us, our customers and wider stakeholders. Details on our key risks and the mitigating actions we are taking can be found on pages 30–32.

Performance in 2018

I am very pleased to say that we had an excellent safety performance in 2018. Our Work Safe Home Safe programme is promoting the right behaviours and driving the safety culture across Ervia. It is supported by the necessary safety management systems.

A particular highlight for me this year was the publication of the Irish Water Strategic Funding Plan in November 2018. This plan lays out what Irish Water will do between now and 2024 to improve the water and wastewater infrastructure, enhance the health and quality of life of the people of Ireland, protect our environment and enable economic development. During the year we worked to improve compliance with public health and environmental standards, and to enhance water quality with particular reference to the River Basin Management Plan for Ireland 2018–2021.

Achievements in 2018 included:

- Investing €826m which included the Vartry pipeline and enhancing the southern network of the Cork Lower Harbour Main Drainage Project. You can read more about these projects on pages 43–44.
- Delivering the Kerry Central Regional Water Supply Scheme at Lough Guitane in Co Kerry which won Engineers Ireland Engineering Project of the Year. A further nine drinking water plants were either commissioned or upgraded during the year.
- Commissioning eleven wastewater treatment plants, serving a population equivalent of 354,800.

Removing 22 public water supplies from the EPA's Remedial Action List in 2018, which means that over 166,000 consumers are now being served by schemes that meet the compliance standards. We continued to make progress in reducing water leakage on the system. In 2018 we undertook over 39,000 leak investigations, completed 22,500 leak repairs, saving approximately 73.8 million litres per day (18 mld customer side savings and 55.8 mld public side savings). We also delivered a national leakage management system that will standardise monitoring and reporting across the country. However, challenges remain as we repair networks that are old, complex and overstretched. We are investing a further €0.6bn up to 2024 to reduce leakage by an additional 171 million litres per day.

The gas network performed very strongly. There were no security of supply issues and no outages during the extreme weather events in the first half of the year. We completed construction of the second Scotland to Ireland Gas Interconnector, delivering the 50km of gas pipeline from Brighouse Bay to Cluden in Scotland which will ensure ongoing secure reliable supplies of gas.

During 2018, we commissioned Ireland's first publicly-accessible high capacity fast fill Compressed Natural Gas station, located at the Circle K Service Station in Dublin Port. Gas Networks Ireland received approval for €11.6m of EU funding from the Connecting Europe Facility Transport Fund for Green Connect. This will fund the development of Compressed Natural Gas fuelling points. In addition we commissioned Ireland's first renewable gas injection facility at Cush, County Kildare in December 2018.

Aurora Telecom started work on the new 302km section of the network from Cork to Dublin. We are experiencing strong market demand which is reflected in Aurora's financial performance in 2018. Together Gas Networks Ireland and Aurora Telecom provide access to critical energy and telecommunications infrastructure to data intensive service providers.

2019 Strategic Priorities

We will continue to create meaningful value for the people of Ireland leading the transition to a low carbon energy system, protecting precious water resources and increasing resilience.

We work closely with the Department of Communications, Climate Action and Environment to ensure the gas network is utilised to its full extent in the transition to a low carbon energy system. We are progressing with our plan for a national network of 70 Compressed Natural Gas refuelling stations. We are also investigating the potential for a network of anaerobic digestion plants. Going forward we will continue to work actively to support general energy policy, set out in the Government's energy policy white paper 'Ireland's transition to a low carbon energy future 2015–2030' and other important new national policy initiatives, subject of course to commercial considerations. To this end we intend to assess the feasibility of a Carbon Capture and Storage facility.

In 2014, we embarked on a four-stage process to identify a suitable new source of water supply for the Eastern and Midlands Region. The proposed Water Supply Project will be the first major comprehensive upgrade to the infrastructure in the region in over 60 years. We have sought, listened and responded to public feedback at every stage of the project's development, from assessing the need right through to identifying the preferred scheme. Irish Water will continue to progress the preparation of a planning application for submission to An Bord Pleanála in 2019.

In July, the Government announced that Irish Water would become a standalone, publicly owned, commercial, regulated utility separated from the Ervia group during 2023. Therefore, in the second half of 2018, we turned our attention to the development of a separation plan, which we expect to submit to Government in the first half of 2019. This plan will address the legal, financial and operational issues arising and set out milestones on the separation journey and metrics to measure progress.

The transformation of the public water services to a modern public utility is a critical task that will require a significant programme of change to ensure that we have modern and effective systems for the delivery of water and wastewater services in Ireland. We are engaging with all stakeholders to develop a transformation programme, in an open and constructive manner, to ensure all issues are considered. There is more detail about the development of the Single Public Utility on page 47.

Acknowledgements

I want to acknowledge the services of the members of the Board. They provide vital oversight, governance and guidance and I am very grateful for all they do for Ervia. I also extend my appreciation to the members of the Executive team for their energy, professionalism and leadership during the year.

Finally and most importantly, I would like to express my sincere gratitude to all our staff and delivery partners for their hard work and commitment. We face many challenges ahead including improving the water infrastructure, transitioning to a low carbon energy system, preparing for the separation of Irish Water and transforming the water services industry. I am confident that we have the talent, expertise and capacity to succeed.

Mike Quinn
Chief Executive Officer

New Award Winning Kerry Central Regional Water Treatment Plant

Creating Value

Strategic Framework

Purpose

To enhance the health and quality of life of the people of Ireland, protect our environment and enable economic development by delivering high quality water and gas infrastructure and services safely and efficiently.

Strategic Objectives

Our strategy to provide essential gas, water and wastewater infrastructure and services efficiently and safely in accordance with our long term plan. This will be achieved by:

1

Building an efficient and effective organisation...

with the capabilities, flexibility and culture to maintain and develop Ireland's critical networks and earn the trust and confidence of all our stakeholders.

2

Transforming water services...

by transitioning the delivery of water and wastewater services to the Single Public Utility and preparing Irish Water to be a standalone, publicly owned, commercial, regulated utility.

Values

Our five shared values define the character of our organisation, they guide our actions and decisions, and provide a framework for how we communicate with each other, our customers and our stakeholders.

Performance

We strive to be a high performing multi-utility, continuously delivering quality services and infrastructure.

Integrity

We are open and honest in everything we do. We treat each other, our customers, our assets and the natural resources we rely on with respect.

Vision

To be Ireland's trusted leader in service and infrastructure delivery.

3

Positioning Gas Networks Ireland for the future...

to play a key role in decarbonising the energy system, while continuing to deliver safe, sustainable gas network services efficiently.

4

Delivering consistent shareholder returns...

in line with utility peers, by driving efficiencies and synergies, while maintaining strong credit metrics.

Safety

We put safety at the heart of what we do.

Collaboration

We work together to get results, sharing and learning from each other.

Customer Service

Our goal is to provide quality services for our customers. We listen to their needs and strive to exceed their expectations.

Ervia's Business Model

How we create value

Working together, our people and partners build, maintain and operate our gas, water, wastewater and fibre networks to provide essential services to our customers, communities and the economy.

INPUTS → BUSINESS ACTIVITIES

Financial

We earn a return on a mix of regulated and unregulated assets.

TOTAL ASSETS	
Irish Water	**€3.0bn**
Gas Networks Ireland	**€2.8bn**
Aurora Telecom	**€9.6m**

Networks

Our gas, water and telecoms networks cover the length and breadth of the country.

KM OF NETWORKS	
Irish Water	**88,000 km**
Gas Networks Ireland	**14,390 km**
Aurora Telecom	**925 km**

People & Partners

Working together and using our combined expertise allows us to sustain and grow our business.

1,761 employees in **20** locations

along with **3,308** Local Authority staff and our delivery partners

Stakeholders

We consult with and actively seek the opinion of the communities we work in: our customers, regulators, government and investors.

€380m capital contribution

€720m government subvention

Natural Resources

We protect our atmosphere, rivers, lakes, and seashores.

treat **1,200** million litres of wastewater daily

transport **74.4** TWh of Natural Gas annually

Develop and Fund the Future Plans

- Business plan and funding plans
- Investment priorities
- Growth and innovation

Continuously **Improve** our Offering

- Compressed Natural Gas
- Carbon Capture and Storage
- Improve efficiency

Serve our Customers Well

- Easy to work with
- New connections
- Growth

OUTPUTS

BENEFITS

Invest €826m in Assets in 2018

- Growth
- Refurbishment
- Capacity
- Security of Supply
- Protection

Maintain €5.8bn Asset Base

- Reduce leakage
- System security
- Asset strategy

Operate the Systems

- Continuous quality supply
- Safety
- Water treatment
- Wastewater treatment
- Grid control
- Respond to reports of gas leaks
- Keep the system connected

Efficient, cost effective customer centric services

Robust and resilient infrastructure

Customers

- Serving **1.8m** customers
- Providing continuous, safe, high quality supplies
- Delivering increasingly efficient services

Employees

- Learning and Development
- Employee Assistance Programme

Communities

- Protecting the environment and supporting biodiversity
- Supporting local communities

Regulators

- Improving performance vs regulatory standards

Shareholder

- Contributing a dividend payment of **€139m**
- Making progress towards achieving compliance with EU Directives

Economy

- Enabling economic development
- Supporting industry
- Investing **€826m** in infrastructure

Factors Influencing Value Creation

THE TREND

Decarbonisation

Ireland is committed to a 30% reduction in emissions from heating, transport and agriculture by 2030 (compared to 2005 levels). We have also committed to producing 27% of our energy from renewable sources by 2030 and to achieving 27% energy efficiency (compared to 2005 levels). Combined, these present enormous challenges that will impact every citizen in the country.

The impact

To support these national commitments we, at Ervia, will need to fully decarbonise our businesses by 2050. This will be challenging for both Gas Networks Ireland and for Irish Water which is a major energy consumer.

Our response

The gas network can be utilised to remove up to 17.5 million tonnes of CO_2 per annum (nearly one third of total Irish carbon emissions). We are progressing a range of ambitious projects and technologies to introduce renewable gases into the gas network and to decarbonise the network by 2050. These technologies include renewable gas, Compressed Natural Gas for transport and Carbon Capture and Storage.

Irish Water is targeting energy efficiency savings across water and wastewater services. There is also the potential for Irish Water to produce more electricity from renewable sources such as on-site wind turbines and solar panels.

THE TREND

Project Ireland 2040

It is forecast that there will be an additional one million people living in Ireland by 2040. This will require over half a million new homes and supporting services such as roads, schools and hospitals. Project Ireland 2040 is the Government's overarching policy initiative that prioritises the wellbeing of the people of Ireland for the future. It involves an investment in infrastructure of almost €116 billion by 2027 and is made up of the National Planning Framework to 2040 and the National Development Plan 2018–2027.

The impact

Project Ireland 2040 will require significant investment in water, gas and telecommunications infrastructure. Water and wastewater services will need to be expanded to serve the growing population. Investment in the gas network will facilitate the production of low carbon electricity, heating and transport. The telecoms network will have to be improved to provide greater connectivity.

Our response

We are developing and delivering plans to provide for the country's future water, wastewater, energy and telecoms requirements. Subject to adequate funding and support, we will work to ensure that we have the necessary infrastructure to meet these needs. We will continue to develop our expert, agile and dedicated workforce to implement these plans. We will also continue to engage with the public and our customers to understand their needs as our country develops.

THE TREND

Customer Expectations in a Digital Age

Digitalisation has become a key part of all our lives. Every day, in our homes, in our cars and at work, we interface with technology in ways we could never have envisaged, even 20 years ago. The pace of development of new connected technologies is growing, with major steps forward in Artificial Intelligence expected over the coming years. In response to data breaches in global companies, the General Data Protection Regulation (GDPR) was enacted in May 2018. It fundamentally reshaped the way in which data is handled and ensured that robust consent management processes are in place.

The impact

Globally, customer expectations are evolving with the pace of digital transformation. Transactions are increasingly online and customers, suppliers, staff and assets are all evolving towards real-time connectivity. Research shows that customers now want more timely and accurate information, quick response and action, with minimal customer effort. In parallel, customers expect that their service providers will protect the privacy of their personal information and comply with national and European standards for data protection.

Our response

Both Gas Networks Ireland and Irish Water will continue to invest in IT platforms and digitise data to meet customers' expectations of data accuracy, response times and privacy. We will ensure we have robust systems in place to protect against cyber-attack and to protect data. We will deliver IT solutions to enhance productivity across Gas Networks Ireland and Irish Water operations. It is our ambition to be a trusted brand as we meet our commitments to the citizens of this country.

THE TREND

Compliance

Businesses across Europe must comply with stringent legal and regulatory obligations while continuing to meet sustainability and service obligations. We are subject to legislative provisions and regulations and operate within strict policy and regulatory frameworks. There are new and additional cyber security, human rights, management information systems and ethics in business requirements that will come in to force in the near future. Our major infrastructure developments in water, wastewater and gas are subject to public scrutiny and to public planning and consultation processes. Both Gas Networks Ireland and Irish Water are regulated by the Commission for Regulation of Utilities. In addition, Irish Water must meet the requirements of its environmental regulator, the Environmental Protection Agency.

The impact

Compliance generates cost and capability challenges which we must meet while balancing growth and efficiency demands. Irish Water faces unique compliance challenges as a result of a legacy of underinvestment in water and wastewater assets.

Our response

Gas Networks Ireland will continue to meet operational and safety requirements and will also introduce new, more flexible operational codes and policies to facilitate the injection of renewable gas into the gas grid. Irish Water will work to meet national and international regulations through its programmes to reduce water leakage, improve water quality and upgrade wastewater treatment facilities and services that meet national and EU requirements. We will ensure compliance with data, security and ethics codes. We are committed to meeting the need for greater transparency in the provision of public services. Customers and stakeholders expect us to communicate and consult with the communities we serve. We will continue to operate in accordance with our statutory requirements including planning and public consultations, regulated price controls and published business plans. We will also continue to engage in proactive two-way communications with all relevant stakeholders.

Stakeholder Engagement

At Ervia we take the nature and quality of our relationships with all our stakeholders very seriously. We work closely to understand their views and interests, to deliver our projects in partnership, and respond to their interests as we progress our plans.

	REPRESENTATIVE BODIES INCLUDE	PRIORITIES
General Public and Communities	Individuals, community and environmental groups, consumer groups, business interest groups, farming bodies etc.	Ensure safe and reliable supplies of natural gas and water and the removal and treatment of wastewater. Support social and economic growth.
Partners	Local Authorities and third party service providers.	Work effectively together to deliver quality services.
Regulators	Environmental Protection Agency, Commission for Regulation of Utilities, Health Service Executive, Health and Safety Authority Utility Regulator (Northern Ireland), Office of Gas and Electricity Markets.	Deliver initiatives to implement energy, climate and water services policies. Continue to roll out the Business Plans including the delivery of the Capital Investment Plans. Operate efficiently and reduce costs.
Elected representatives	Elected representatives at local, national and European level.	Implement public water services, energy and climate policies.
Shareholders	Department of Housing, Planning and Local Government, Department of Communications Climate Action and Environment, Department of Public Expenditure and Reform.	Implement Government policy. Communicate accurately and transparently and demonstrate progress against plans. Establish Irish Water as a stand-alone organisation.

RESPONSE	SURVEYS	FACE TO FACE	ROUNDTABLES	INFORMATION EVENTS	WORKING GROUPS	WEBSITE	SOCIAL MEDIA	MULTI-STAKEHOLDER MEETINGS
Focus on engagement at local and community level. Maintain excellent performance in responding promptly to reports of escaped gas. Reduce leakage from the system, remove customers from Boil Water Notices as quickly as possible and end the discharge of raw sewage. Continue to connect new towns, such as Listowel, and new customers to the natural gas network. Provide new connections and infrastructure to facilitate the development of new housing and industrial growth.	●	●	●	●	●	●	●	●
Hold frequent performance reviews and forward looking planning discussions with the Local Authorities and other service partners.	●	●	●		●	●	●	●
Invest in Biogas and Compressed Natural Gas projects, and national programmes such as leakage reduction and lead mitigation programmes. Continue to roll out the Gas Networks Ireland and Irish Water Business Plans, including the delivery of strategic capital investment projects such as the Water Supply Project, Greater Dublin Drainage, Cork Lower Harbour Main Drainage Project, Vartry Water Supply Scheme, Ringsend Wastewater Treatment Plant Project and the twinning of the gas interconnector from Cluden to Brighouse Bay.		●			●			
Provide information and support to elected representatives at local and national level.		●		●	●	●	●	●
Develop and deliver business plans that are aligned with Government policies. Regular performance reports and updates are issued to monitoring and oversight bodies. Plan for separation during 2023 prepared for consideration by the shareholder.	●	●	●	●	●	●	●	●

Delivering on our Strategy

Ireland's first public Compressed Natural Gas re-fuelling station

As an alternative transport fuel, Compressed Natural Gas will allow businesses to reduce transport costs and emissions.

Delivering on Our Strategy in 2018

Irish Water

Water Framework Directive

Water Services Policy Statement

Irish Water is a publicly owned, regulated, commercial State body with responsibility for the operation and maintenance of water and wastewater assets.

Water Services Strategic Plan

Strategic Funding Plan

The operating model for Irish Water is set in the context of the European Union Water Framework Directive. It is the overarching directive in relation to water policy in the European Union.

822 professional, technical and support staff, together with 3,308 Local Authority staff and our customer contact centre and service delivery partners serve our 1.8 million customers. In 2018 we operated 1,895 water and wastewater plants to supply 1.7 billion litres of drinking water each day and treating the wastewater produced.

FOCUSSING ON		IN 2018 WE
	Quality	▸ Removed 15,026 customers from boil water notices. ▸ Replaced 12,477 lead services connections. ▸ Performed over 186,600 individual tests on drinking water supplies.
	Conservation	▸ Fixed leaks to save 73.8 million litres of water per day (18 mld customer side savings and 55.8 mld public side savings). ▸ Repaired over 22,500 customer leaks. ▸ Maintained more than 4,400 District Meter Areas.
	Future Proofing	▸ Upgraded or built 10 water treatment plants. ▸ Upgraded or built 11 wastewater treatment plants. ▸ Laid or rehabilitated 416 km of watermains network. ▸ Invested €683m in strategic infrastructure to support economic and social growth.

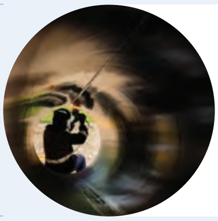
Delivering on Our Strategy in 2018

Gas Networks Ireland

Commission for Regulation of Utilities Price Control 4 (2017–2022)

Safe Operations	Securing the Future	Security of Supply
S.I. No. 145/2014 – Gas Regulation Act 2013 and CRU Safety Framework	Alternative Fuels Infrastructure Directive and Renewable Energy Directive	EU Security of Supply Regulation (Regulation (EU) 2017/1938)
Gas Transmission and Distribution Licences	National Policy Framework for Alternative Fuels Infrastructure and Climate Action and Low Carbon Development Act (NMP & NAF)	Compliance with EU Security of Supply Regulation

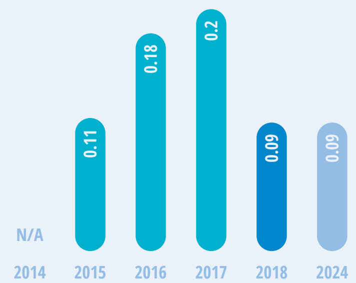
549 professional, technical and support staff, together with our customer contact centre and service delivery partners serve our 700,000 customers. In 2018 we transported 74.4 TWh of gas through 14,390 km of gas pipelines including 2 sub-sea interconnectors. We also operate the most modern fibre network in Ireland.

FOCUSSING ON		IN 2018 WE
	Security of supply	▸ Completed the twinning of the interconnector ▸ Performed over 38,000 planned maintenance work orders ▸ Extended the Aurora Telecom fibre optic network
	Securing the future	▸ Connected 11,839 new customers ▸ Contracted 790 GWh of new demand ▸ Commissioned Ireland's first renewable gas injection point
	Safe operations	▸ Delivered best-in-class emergency services ▸ Investigated 16,883 public reports of escaped gas with an average response time of 32 minutes, 99.3% of which were within one hour.

Delivering on Our Strategy in 2018

Irish Water Operating Performance

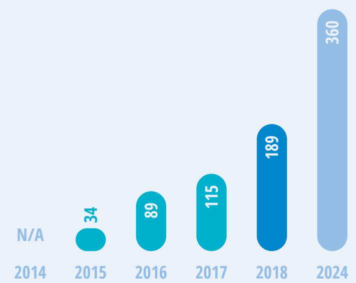
SAFETY
Total LTIFR – Employees
(>1 day)#/100k hours



We use the Lost Time Incident Frequency Rate (LTIFR) to track the # of employee accidents per 100,000 hours worked that result in a staff member needing to take >1 day off work.

Safety is a core value at Ervia. The *Work Safe Home Safe* safety culture programme has been in place since 2015 and we continue to work to improve our safety performance.

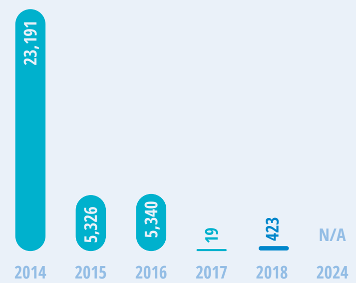
WATER SAVED
Water Saved by Fixing Leaks
Cumulative Millions of Litres per day



This is a measure of the water saved as a result of our efforts in rehabilitating mains and pro-actively finding and fixing leaks.

In 2018 45% of all water treated was lost between the treatment plant and the tap, we aim to increase the effectiveness and resilience of our network by reducing the quantity of water lost in the system.

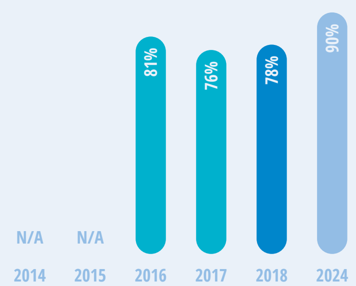
BOIL WATER NOTICES (>30 DAYS)
of customers remaining



The number of Boil Water Notices that have been in place for more than thirty days.

A Boil Water Notice is imposed by the HSE where contamination of the drinking water supply has occurred.

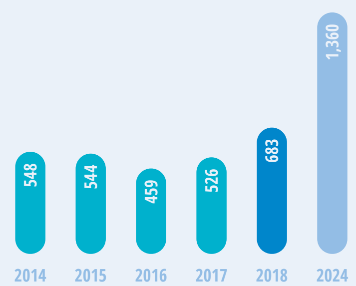
CUSTOMER SERVICE
First Contact Resolution –
Operations %



We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores. *(Data not available for 2014/15).*

This measure tells us how often we are able to resolve a customer's request on that first contact, without the need to get further information, escalate to the back office, create a complaint or follow up.

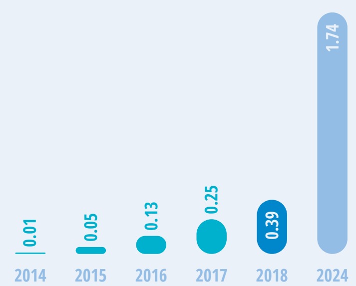
CAPITAL EXPENDITURE
Capex
€m



We include infrastructure spend on plant, property, equipment and intangible assets.

Delivering capital programmes is central to our ability to develop and maintain our networks.

OPERATING EFFICIENCIES
Cumulative Opex Efficiencies
€bn

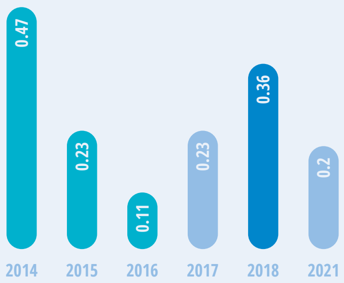


We drive efficiencies in how we deliver our services on an ongoing basis. The establishment of the Single Public Utility will enable us to realise these targeted efficiencies.

This metric shows cumulative savings of €1.74bn over the period 2014-2024. €142m in annual savings have been achieved since 2014. We are on track to deliver the targeted savings of €310m (per annum) by 2024.

Gas Networks Ireland Operating Performance

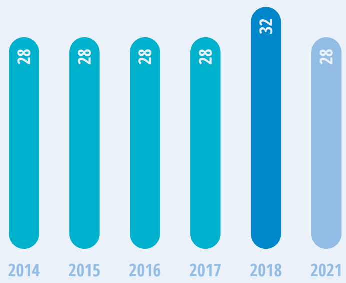
SAFETY
Total LTIFR – Employees
(>1 day)#/100k hours



We use the Lost Time Incident Frequency Rate (LTIFR) to track the # of employee accidents per 100,000 hours worked that result in a staff member needing to take >1 day off work.

Safety is a core value at Ervia. The Work Safe Home Safe safety culture programme has been in place since 2015 and we continue to work to improve our safety performance.

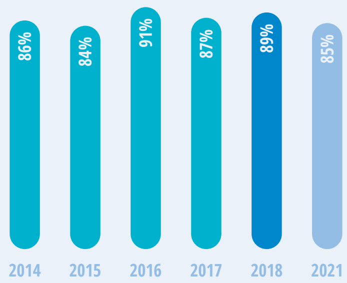
SAFETY
Average # mins to respond to
Public Reports of Escapes



This measure tracks how quickly we respond, on average, to reports of gas escapes as reported by the public. Our agreed metric with the CRU is 97% response within 1 hour, in 2018 a 99.3% compliance rate was achieved.

This is a core safety metric. Maintaining these high performance standards consistently over time shows how important this is to us.

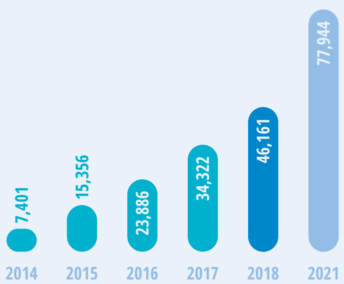
CUSTOMER SERVICE
First Contact
Resolution



We review a sample of our customer contacts each month across a range of different call types. A selection of calls are surveyed independently to validate the scores.

This measure tells us how often we are able to resolve a customer's request on that first contact, without the need to get further information, escalate to the back office, create a complaint or follow up.

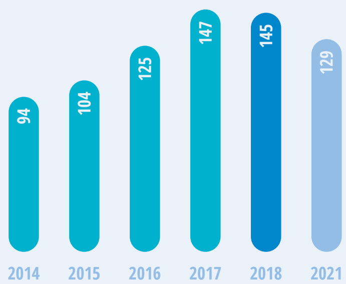
GROWTH
New Connections Cumulative
2014–2021



We measure the increase in network utilisation as a result of new connections.

This shows strong growth in new connections over the period which is forecast to continue to 2021.

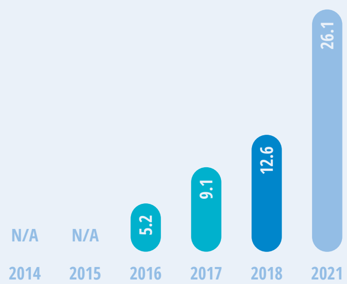
CAPITAL EXPENDITURE
Capex
€m



We include infrastructure spend on plant, property, equipment and intangible assets.

Delivering capital programmes is central to our ability to develop and maintain our networks.

OPERATING EFFICIENCIES
Opex Efficiencies
€m



We drive efficiencies in how we deliver our services on an ongoing basis.

We are targeting savings of €26.1m over the period 2016–2021.

Risk Management

Proactive risk management is fundamental in our ability to meet both our short-term and longer-term strategic objectives.

Ervia manages, monitors and reports on the principal risks and uncertainties that could impact our ability to deliver our strategic ambitions. The system of risk management and policy is consistent and clear across the organisation. Our objective is to avoid issues materialising while maximising our business outcomes.

Risk Management Framework

The Board has overall responsibility for risk management and systems of internal control. It sets a tone that defines our culture, values and the expected behaviours for the organisation. Appropriate governance structures are implemented to ensure that there is clarity of ownership and responsibility for risk management. Risk appetite is set by determining the nature and extent of the risks we are willing to accept. The Audit and Risk Committee is delegated authority to support the Board with these obligations while various governance forums are in place to maintain an effective risk management environment. We are continuously enhancing the governance culture by integrating and automating our activities across our systems of risk management, internal control and internal audit.

The nature of our business operations is long term, resulting in many of our risks being enduring in nature. These risks can develop and evolve over time, as their potential impact or likelihood changes in response to internal and external events.

At the same time new risks are constantly emerging. Therefore an effective risk management framework is essential to support the delivery of our strategic and operational objectives. Managing our risks effectively allows us to create added value for our shareholders, customers and the wider community.

Our Risk Management Activities

Day to Day	Integrating with Strategy & Process	Governance
Operational Areas	**Risk Framework**	**Policy**
Identify, Manage and Report risks.	Risk assessment is integral to strategy planning, capital decisions and project appraisal.	Functional and Executive Risk Committees support the Audit and Risk Committee.

Principal Risks and Uncertainties

Current Trend Arrows: = Stable ↑ Increasing ↓ Decreasing

	PRINCIPAL RISKS TO VALUE CREATION	CONTEXT & KEY MITIGATION	CURRENT TREND
Health and Safety			
1	A significant public, employee or contractor safety incident resulting in a risk of serious injury/fatality to staff or the public.	All health and safety legislation and arrangements must be adhered to in order to protect staff, contractors, and the public from injury or fatality and avoid potential prosecutions, financial loss and reputational damage. ▸ The Central Safety Committee (which is an Executive Committee) oversees Health & Safety performance. ▸ Enterprise wide *Work Safe Home Safe* programme.	=
Security of Supply			
2	Failure to meet present and future water demand in the Greater Dublin Area because of a lack of available headroom, reliance on a primary water source and critical single points of failure across an aged water infrastructure.	Without additional capacity, this could result in potential social and economic impacts and a failure to support future growth demands. ▸ The Water Supply Project – Eastern and Midlands Region has been identified as the key long term strategic solution to meet the future demands of the eastern region. ▸ Ongoing monitoring of all resource levels (rivers, lakes, boreholes, impounded reservoirs) with short term measures available to boost water available for use. Treatment plant capacity upgrades taking place at key sites.	=
3	Not delivering the projected water leakage savings required due to increasing leakage incidents and the current state of the water infrastructure.	Failure to deliver could impact Irish Water's reputation and credibility and result in increased operating costs and reduced efficiency. ▸ A new Leakage Management System is now being rolled out. It will enable smarter and more efficient leakage reduction activities across the water network. A phased plan is in place for rollout to all Local Authorities by the end of 2019.	=
4	There are short term and long term impacts to the delivery of gas and water services due to the increased frequency and intensity of extreme weather events (e.g. Storms such as Ophelia or Emma).	Irish Water's and Gas Networks Ireland's operations and assets withstood the severe weather experienced during 2017 and 2018. However, there has been an increased frequency and intensity of severe weather events, a trend which is likely to continue ▸ For day to day delivery of water and gas services, there are comprehensive resilience plans in place. ▸ A working Group for the Climate Change Adaption Plan for Electricity and Gas Networks Sector is in place. ▸ An assessment of the potential impacts of climate change scenarios on Irish Water infrastructure assets has been undertaken with external partners.	=
Transformation of Water Services			
5	Failure to deliver the Transformation Programme due to a potential lack of the necessary support and agreement from key stakeholders.	Failure to deliver would result in significant impacts to the delivery of commitments in the business plan and required service levels. ▸ Engagement ongoing with the representative unions through the Workplace Relations Commission.	↑
Climate Change & Energy Decarbonisation			
6	Failure to successfully implement and deliver Gas Networks Ireland's long term growth strategy, an inability to meet the required decarbonisation obligations and also the requirement for Ervia to become a leading sustainable Irish business.	Inability to deliver could lead to significantly reduced demand on the gas network and under-utilisation of the assets. ▸ Continued development of the vision and strategy for the "future role of gas and greener gas solutions" to ensure the gas network is put firmly in the centre of Irish climate change policy. ▸ Sustainability initiatives identified and underway across the organisation and long term strategies being developed.	=

Risk Management (continued)

	PRINCIPAL RISKS TO VALUE CREATION	CONTEXT & KEY MITIGATION	CURRENT TREND

Delivering Infrastructural Investment

7	An inability to fully deliver the Capital Investment Plans due to: ▸ Limited supply chain capacity within the construction industry. ▸ Increasing costs beyond agreed budgets (e.g. construction inflationary pressures). ▸ Complexities and delays in project approvals.	Across the Irish semi-state and private sector, significant multi-year capital projects are planned for the coming years – resulting in capacity constraints and potentially increased construction price inflation. ▸ Capital planning and monitoring is ongoing with quarterly reporting and projections provided to the Group Investment Approval Committee. ▸ Supply chain restructured in line with industry best practice. ▸ Early Contractor Involvement Programme – integrated design, development & construction planning.	↑

Customer, Reputation & Stakeholder

8	Awareness and understanding of the critical service roles Irish Water and Gas Networks Ireland undertake is key. Trust, confidence and support must be gained from our customers and stakeholders.	A failure to gain awareness and understanding could result in an inability to deliver key organisational objectives. ▸ Strategies in place to inform and engage customers and shareholders - collaborative public engagement on public consultations for key projects.	=

Service Delivery

9	There is a reliance on a number of key suppliers to deliver both our change programmes and services to Gas and Water customers.	A performance failure by a key supplier could have significant operational impacts to our customers. ▸ Governance structures and contractor management strategy in place. ▸ Relationship Management model in place for key relationships.	=

Our People

10	To support the delivery of our business objectives, we need to have the right organisational structure and the right people and culture in place.	Significant organisational transformation increases the risk of organisational stress. ▸ Organisation Design Steering Group in place & Work Force Planning process established. ▸ Engagement and Culture surveys take place, with ongoing continuous improvement processes.	=

Technology, Financial and Economic

11	Serious loss of service or restriction to Information and Operational Technology services could impact service delivery and infrastructure as a result of an external cyber-attack.	An incident could result in potential business delivery disruption, safety issues, reputational damage or potential regulatory fines. ▸ Comprehensive prevention and pro-active controls across all systems. ▸ Ongoing risk assessments and external independent assurance reviews.	=
12	A 'No Deal' or 'Disorderly' Brexit could have impacts for Ervia and its subsidiaries.	Key potentially impacted areas are regulation, finance, supply chain and operational delivery. ▸ Working Group preparing contingency plans.	=
13	Our activities expose us to a number of global macroeconomic and financial risks - credit risk, funding and operational allowance model risk, liquidity risk, currency and interest rate risks.	Business Plans set out the funding and allowance requirements for each business. ▸ Defined risk limits, delegations of authority and exposure monitoring in place. ▸ Ongoing dialogue and strong relationships with Government, funders and potential investors.	=

Performance in 2018

The Executive Team

Mike Quinn
Chief Executive Officer

Cathal Marley
Group Chief Financial Officer

Liam O'Sullivan
Chief Operating Officer

Orlaith Blaney
Chief Communications and Marketing Officer

Eamon Gallen
Acting Managing Director, Irish Water

Michael G. O'Sullivan
Director, Business Services

Brendan Murphy
Group Commercial Regulatory Director

Rory Williams
Group Chief Legal Officer

Dawn O'Driscoll
Group Strategic HR Director

Denis O'Sullivan
Managing Director, Gas Networks Ireland

Liam O'Riordan
Company Secretary

Financial Review

Ervia delivered a solid financial performance during 2018, enabling the delivery of capital investment of €826m in critical water and gas infrastructure.

Gas Networks Ireland funded a dividend payment of €139m to the Exchequer during 2018, including a special dividend of €90m relating to the sale of the Bord Gáis Energy business.

Cathal Marley
Group Chief Financial Officer

Key Highlights 2018

- Revenue **€1,469m**
- EBITDA **€543m**
- Profit before income tax and exceptional items **€296m**
- Capex **€826m**
- Dividends paid **€139m**
- Stable net debt position at year end of **€1,859m**

Although the results of Irish Water are not consolidated within the audited Financial Statements as included on pages 81–147, the overall Ervia Group results (representing all Ervia entities, including Irish Water) are included here for information purposes. Transactions between Irish Water and other Ervia entities are not eliminated for the purposes of this information (refer to Financial Statements note 30 for further information).

Irish Water surplus is reinvested to fund critical infrastructure projects.

Financial Review (continued)

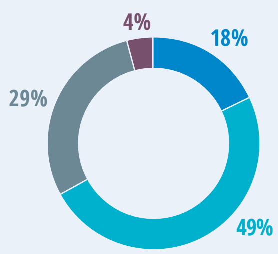
Summary Income Statement (before exceptional items)

	2018				2017			
	IRISH WATER €M	GAS NETWORKS IRELAND[1] €M	CENTRAL SERVICES €M	TOTAL ERVIA €M	IRISH WATER €M	GAS NETWORKS IRELAND[1] €M	CENTRAL SERVICES €M	TOTAL ERVIA €M
Revenue	**982**	**487**	**-**	**1,469**	1,013	473	-	1,486
Commercial revenue	**262**	**487**	**-**	**750**	261	473	-	734
Government subvention	**720**	**-**	**-**	**720**	752	-	-	752
Operating costs	**(734)**	**(186)**	**(6)**	**(927)**	(723)	(168)	(5)	(896)
EBITDA	**248**	**301**	**(6)**	**543**	290	305	(5)	590
Depreciation and amortisation	**(83)**	**(131)**	**-**	**(214)**	(69)	(133)	-	(203)
Finance costs	**(9)**	**(21)**	**(3)**	**(33)**	(12)	(23)	(3)	(37)
Profit before income tax	**157**	**149**	**(9)**	**296**	209	150	(8)	351
Dividend paid to Exchequer	**-**	**-**	**139**	**139**	-	-	148	148

1: Refer to Financial Statements Note 2: Divisional Information for further detail on Gas Networks Ireland and Central Services (Ervia Parent).

REVENUE 2018

- Irish Water – Commercial (Regulated)
- Irish Water – Government Subvention (Regulated)
- Gas Networks Ireland – Regulated
- Gas Networks Ireland – Unregulated



Revenue

Revenue was €1,469m for the year to December 31st 2018, decreasing by €17m compared to 2017. Government subvention income in respect of Irish Water's domestic water billing was €32m lower than the prior year. This was offset by an increase of €14m in Gas Networks Ireland revenues, primarily due to the cold weather experienced in the early part of 2018 and higher new connections revenue compared to 2017.

EBITDA

EBITDA of €543m for 2018 decreased by €47m compared to the 2017 figure of €590m, due to lower revenue of €17m and increased operating costs of €31m. Irish Water operating costs of €734m were €11m higher than the prior year, largely due to the severe weather events that occurred during 2018. It is also reflective of the continuing development of Irish Water, and is offset by the delivery of operating cost efficiencies. Gas Networks Ireland operating costs of €186m during 2018 represents an increase of €18m compared to 2017, mainly due to increased network maintenance programmes, and uncontrollable increases in gas commodity costs and in rates.

Profit before Income Tax and Exceptional Items

Profit before tax decreased by €55m to €296m for 2018 due to:

- lower EBITDA performance of €47m,
- higher depreciation charges of €11m arising from the increased investment in infrastructure,
- partly offset by lower finance costs of €4m, primarily due to more favourable financing rates during 2018 compared to the prior year.

Any surplus arising in Irish Water is reinvested in water and wastewater infrastructure.

Exceptional Items

During 2018, Gas Networks Ireland/ Central Services recognised a €1m net exceptional pre-tax gain in respect of re-measurement of certain financial instruments. Further details are set out in note 9.

	2018	2017
Profit before Income Tax and Exceptional Items		
Irish Water	€157m	€209m
Gas Networks Ireland	€149m	€150m
Capital Investment		
Irish Water	€683m	€526m
Gas Networks Ireland	€143m	€147m

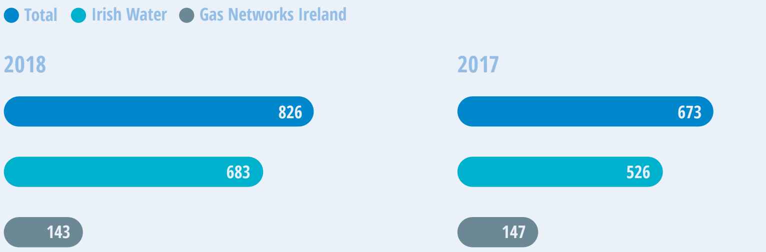
Summary Balance Sheet

	2018				2017			
	IRISH WATER €M	GAS NETWORKS IRELAND[1] €M	CENTRAL SERVICES €M	TOTAL ERVIA €M	IRISH WATER €M	GAS NETWORKS IRELAND[1] €M	CENTRAL SERVICES €M	TOTAL ERVIA €M
Infrastructure assets	**2,781**	**2,530**	**8**	**5,320**	2,181	2,525	8	4,714
Other assets	**203**	**236**	**47**	**486**	153	203	72	428
Total assets	**2,985**	**2,766**	**55**	**5,806**	2,335	2,727	80	5,142
Borrowings	**(885)**	**(1,192)**	**-**	**(2,077)**	(825)	(1,186)	-	(2,010)
Pension liability (IAS 19)	**(27)**	**-**	**(98)**	**(126)**	(29)	-	(128)	(157)
Other liabilities	**(596)**	**(624)**	**133**	**(1,087)**	(523)	(665)	199	(989)
Total liabilities	**(1,508)**	**(1,816)**	**35**	**(3,289)**	(1,376)	(1,851)	71	(3,156)
Net assets	**1,477**	**951**	**90**	**2,517**	958	877	151	1,986
Net debt	**(823)**	**(1,051)**	**15**	**(1,859)**	(809)	(1,118)	25	(1,903)

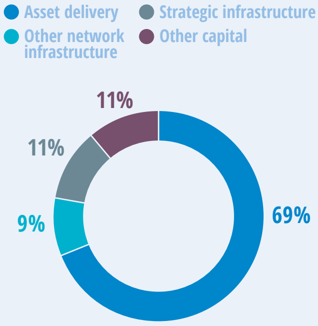
1: Refer to Financial Statements Note 2: Divisional Information for further detail on Gas Networks Ireland and Central Services (Ervia Parent).

Financial Review (continued)

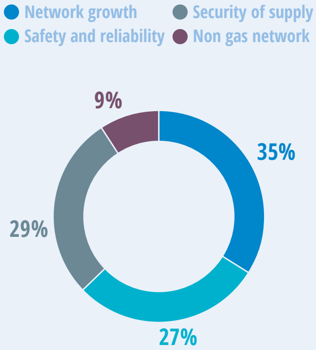
CAPITAL INVESTMENTS €m



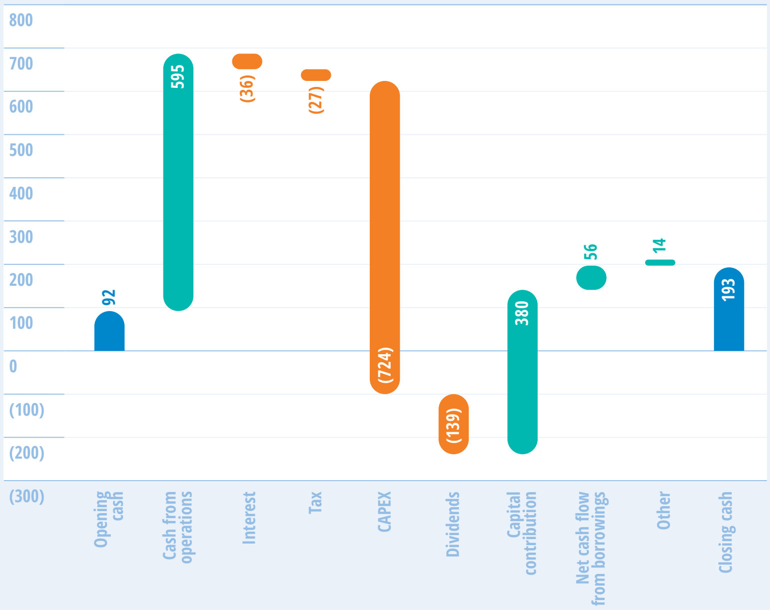
IRISH WATER CAPITAL INVESTMENTS 2018



GAS NETWORKS IRELAND CAPITAL INVESTMENTS 2018



HOW CASH WAS USED IN 2018 €'m



Infrastructure Assets and Capital Expenditure

Ervia continued the delivery of scheduled capital investments with total investments of €826m between water, wastewater, gas and telecoms infrastructure.

Net Debt and Cash Flows

- Net debt remained relatively stable at €1,859m at December 31st 2018, compared to €1,903m in the prior year.
- Operating cash flows of €595m were partially used to fund critical capex investments in water, wastewater and gas infrastructure.
- Capital expenditure in cash outlay terms was €742m.
- Gas Networks Ireland funded a dividend payment to the Exchequer of €139m, including a €90m special dividend relating to the sale of the Bord Gáis Energy Business.
- Irish Water received a capital contribution of €380m from the Government.

Net Pension Deficit

Ervia Group has an accounting pension deficit (IAS 19) of €126m as of December 31st 2018, a decrease of €31m compared to 2017. In accordance with IAS 19 requirements, corporate bond yields are used as the basis to determine an appropriate discount rate to calculate the present value of long-term pension scheme liabilities irrespective of the nature of the scheme's assets or their expected returns. The discount rates used to value pension liabilities have increased by 0.35% (Ervia) / 0.40% (Irish Water) during the year, decreasing the value of pension scheme liabilities. Refer to Financial Statements note 1 (d) and note 21.

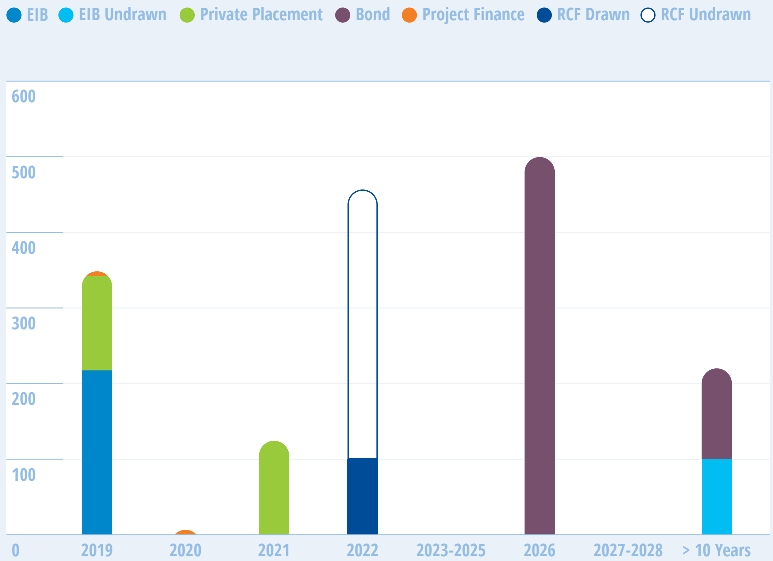
Capital Resources and Treasury Governance

Capital Resources – Gas Networks Ireland

Gas Networks Ireland's total borrowings were €1,192m at December 31st 2018 after certain re-measurements arising from the application of IFRS 9 and including capitalised loan fees. There were undrawn facilities of €457m and €117m of cash and cash equivalents at December 31st 2018.

Gas Networks Ireland has a statutory borrowing limit of €3 billion, which sets the upper limit for drawn facilities. In 2018, the Company executed a €100m financing facility with the European Investment Bank. This facility will underpin continued investment in the gas network. 62% of Gas Networks Ireland's debt was at fixed rates at December 31st 2018 (62%: December 31st 2017).

GAS NETWORKS IRELAND DEBT MATURITY PROFILE €'m



The weighted average interest rate on Gas Networks Ireland's portfolio of outstanding borrowings excluding limited recourse borrowings was 1.60% (1.57%: December 31st 2017) and the average maturity of its debt was 5.95 years (6.95 years: December 31st 2017). In 2018, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and A3 with Moody's Investors Services.

Capital Resources – Irish Water

Irish Water has a statutory borrowing limit of €2 billion, which sets the upper limit for drawn facilities. Total borrowings were €885m (including capitalised loan fees) and there were undrawn facilities of €375m and €62m of cash and cash equivalents at December 31st 2018.

Key activities in relation to debt management undertaken during 2018 include; the rollover of €800m of bilateral funding facilities with a number of commercial banks and the refinancing of the existing €450m of funding facilities from the Ireland Strategic Investment Fund.

Irish Water continued to roll its debt financing for periods of one year, pending implementation by the Government of the recommendations of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services and a Department of Housing, Planning and Local Government led Working Group on the Future Funding Model for Irish Water. The revised funding model provides funding certainty to Irish Water on a multi-annual basis within the constraints of government budgetary planning. The weighted average interest rate on the portfolio of outstanding borrowings at December 31st 2018 was 0.93% (1.32%: December 31st 2017) and the average maturity of its debt was 0.42 years (0.55 years: December 31st 2017).

Treasury Governance

Ervia operates a centralised treasury function. The responsibility for treasury activity and its performance rests with the Board, which exercises its responsibility through regular review. The Audit and Risk Committee reviews the appropriateness of the treasury policy and the effectiveness of the system of internal controls.

Ervia complies with the requirements of the Minister for Finance, Public Expenditure and Reform under the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and the specification of the Minister for Finance, Public Expenditure and Reform. Ervia's treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited. Further details of Ervia's treasury governance financial risk management policies are set out in the Financial Statements note 26.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Irish Water – Operating Review

Having spent some time in the role of General Manager, it has been my privilege to take on the mantle of Acting Managing Director of Irish Water following the retirement of Jerry Grant in September 2018. The challenges facing Irish Water are vast but we continue to make good progress against our business plan, while also dealing with some unique difficulties during the year. In particular, 2018 will be remembered for the frequent and severe weather events and the stress these placed on our water supplies. Severe storms and cold weather in February were followed in the summer months by the worst drought conditions since records began. Despite these difficult conditions Irish Water and Local Authority staff continued to keep water services in place for homes and businesses across the country. The repair and upgrading of the country's water and wastewater services remains our focus. We will continue to prioritise our investment decisions to deliver the biggest benefit to communities and businesses, while safeguarding the environment. The publication of the Government's Water Services Policy Statement 2018–2025 in May, followed by our Strategic Funding Plan, means we now have a clear policy roadmap for the future.

Eamon Gallen,
Acting Managing Director, Irish Water

Progress against Strategic Objectives

> *...supplying 1.7 billion litres of treated drinking water to 1.6 million households and almost 172,000 businesses every day.*

Quality

Irish Water remains fully committed to delivering our ambitious capital and infrastructure investment strategy to deliver modern, efficient and reliable water and wastewater services. We continued to perform strongly, managing a total investment of €683m in 2018. We are seeing tangible outputs from this investment right across the country.

Water Quality

We operate 790 water treatment plants, some of which take water from small sources that are vulnerable to contamination and the impacts of climate change. Water quality in a number of Ireland's public water schemes does not meet mandatory European drinking water standards and are considered to be at risk of failure in terms of quality parameters. The European Commission commenced formal infringement proceedings against Ireland for alleged non-compliance of trihalomethanes (THM) parametric limits in July 2018. We worked with the Department on the response which issued in Q3 2018 and we are continuing to support the Department as required.

We prioritise investment in those supplies that require significant improvement to reduce the risk of failure to acceptable levels. The number of public water schemes on the Environmental Protection Agency's Remedial Action List was reduced to 32 in 2018 from a baseline of 121 in 2015. Over the course of the year, 166,000 people were taken off the Remedial Action List.

Throughout the year we continued to monitor and report on all public drinking water supplies nationwide, taking over 8,800 regulatory samples which amounted to over 186,500 individual tests. The results of this sampling is published on the Irish Water website, allowing households and businesses to see the results for their water supply. We continued to roll out our national work programmes, including the delivery of reservoir cleaning and refurbishment, telemetry monitoring of critical operating parameters, filter refurbishment and safety programmes. Under our National Disinfection Programme 693 sites have been assessed to date, out of a total of 819 primary water treatment sites, and

We are developing a National Water Resources Plan which, for the first time, will set out how we intend to maintain the supply and demand for drinking water over the short, medium and long term while minimising the impact on the environment.

upgrade works have been completed at 80 sites benefitting circa 240,000 people.

Work was completed on ten water treatment plants in 2018 including Lough Guitane in Kerry that won the Engineers Ireland - Engineering Project of the Year.

In 2018, we communicated directly with all users of schemes that were on the Environmental Protection Agency's Remedial Action List, with some agreed exceptions. In October and November we issued over 165,000 letters to homes and businesses in 16 counties on 55 different water supply schemes serving a total population of 366,000 people. This new practice will be continued for any scheme added to the Remedial Action List in the future.

There is a growing public understanding of the reality around the resilience of water supply to Dublin and the surrounding areas. We are developing a National Water Resources Plan which, for the first time, will set out how we intend to maintain the supply demand balance for drinking water supplies over the short, medium and long term while minimising the impact on the environment. The draft plan will be published in early 2019. We will be asking the general public and stakeholders to engage on the plan through a public consultation.

We are delivering drinking water projects of national strategic importance. These multi annual projects are being developed in accordance with complex environmental, procurement and planning, legislative and regulatory requirements.

Vartry Water Supply Scheme

We are making a significant investment to ensure a safe and sustainable water supply for over 200,000 people in the North Wicklow and South Dublin areas. This scheme involves the upgrade of the existing Vartry water treatment plant, a new 4km pipeline from Vartry to Callowhill and 40km of trunk mains that deliver water to a new covered storage reservoir in Stillorgan, County Dublin. This will replace and upgrade the original scheme that was developed in the 1860s by Dublin Corporation. The pipeline from Vartry to Callowhill was commissioned in December 2018 and construction on the Vartry Water Treatment Plant upgrade started in October 2018.

The existing Stillorgan site contains three open water reservoirs that store treated drinking water. This is one of the last such sites in Europe. Construction of a new covered reservoir began in November 2018.

Water Supply Project – Eastern and Midlands Region

The delivery of a sustainable and resilient national water supply requires the identification of a new source of supply for the Eastern and Midlands region. This will provide an additional 330 million litres of water a day by 2050. The existing water supply sources and infrastructure for this region, do not have the capacity or resilience to meet these requirements nor can they be addressed by fixing leaks alone. This project will represent the first major comprehensive delivery of 'new source' infrastructure in over 60 years.

Over 1,000 stakeholders participated in the latest consultation stage of the preferred scheme and environmental impact assessment scoping report which ran for fourteen weeks from 8 November 2016 to the 14 February 2017. This Consultation Submissions Report details the consultation activities undertaken and sets out a summary of the feedback received from the fourth consultation, and the project team's response to this feedback. Engagement with project stakeholders continued throughout 2018 with further engagement planned next year. We intend to publish the Water Supply Project Update Report before we apply for planning in 2019.

Wastewater Quality

Irish Water is responsible for the provision and development of water services including the collection, treatment and discharge of wastewater. We operate 1,105 wastewater treatment plants, 2,089 wastewater pumping stations, 25,000km of foul/combined sewer network and 2,000 storm water overflows nationally.

Our investment in wastewater treatment and networks is aligned with commitments made in the River Basin Management Plan (2018–2021) to improve water quality. These commitments include planned investment to increase compliance with the Urban Wastewater Treatment Directive and the Wastewater Discharge (Authorisation) Regulations. In 2018:

- 11 wastewater treatment plants were commissioned, serving a population equivalent of 354,800.
- 74km of public sewers were laid and a total of 149km of public sewers were surveyed.

We continued to progress a number of major wastewater projects, including:

Cork Lower Harbour Main Drainage Project

The commissioning of the new 65,000 population equivalent wastewater treatment plant at Shanbally in 2017 and the ongoing repair and extension of the sewer network in Ringaskiddy, Crosshaven, Carrigaline, Shanbally and Coolmore, has already resulted in a 50% reduction in the volume of untreated sewage being discharged into Cork Lower Harbour. Our goal is to have a sewage-free harbour by the end of 2021.

Construction works on the southern networks element will be completed in 2019 and the works on the Cobh to Monkstown estuary crossing will also begin. Works on the Cobh network are targeted to commence in mid 2019.

Greater Dublin Drainage Project

We are developing a new regional wastewater treatment facility and associated infrastructure to serve the population of Dublin, Kildare and Meath. The planning application was submitted in June 2018. It proposes a new regional wastewater treatment facility be built in Clonshaugh in County Dublin along with associated infrastructure to serve the population of the Dublin, Kildare and Meath areas. The volume of wastewater generated in the Greater Dublin Region is projected to increase by more than 50% in the period to 2050. This project is a key part of our investment in wastewater infrastructure for the Greater Dublin region and will facilitate this growth while also protecting public health and safeguarding the environment.

Ringsend Wastewater Treatment Plant Upgrade

The Ringsend Wastewater Treatment Plant was originally designed to treat wastewater for a capacity of 1.6 million population equivalent but is currently operating in excess of that capacity, at 1.9 million population equivalent. Irish Water is undertaking a project to extend the treatment plant to meet this higher demand and also to ensure the treated water discharged to the lower Liffey estuary meets the required standards.

In June 2018 we sought planning permission for works required to facilitate the use of advanced nutrient reduction treatment technology at the plant. This technology, known as Aerobic Granular Sludge, will enable the treated wastewater outfall to remain at its current location thereby overcoming the requirement for the previously permitted long sea outfall tunnel. The June application also sought permission for the upgrade of the sludge treatment facilities at the plant and for the provision of a regional bio-solids storage facility in Newtown in Dublin.

> *As a result of these leakage reduction activities during 2018 the volume of drinking water lost has been reduced by approximately 73.8 million litres per day (18 mld private and 55.8 mld public).*

Conservation

Leakage continues to be one of the biggest issues for our customers and stakeholders. This was especially evident after Storm Emma in February when the thaw resulted in a spike in burst pipes on the public water supply network. While the rate of leakage remains unacceptably high, it is a complex issue to solve. We are investing €0.6bn up to 2024 to reduce leakage by an additional 171 million litres per day.

In 2018 we continued to progress works under the Leakage Reduction Programme, which was launched in 2017. Over 48,000 leaks have been repaired to date and our First Fix Free Scheme remains in place for householders. This year we also:

- Implemented a national Leakage Management System which will standardise monitoring and reporting.
- Deployed more crews on the ground across the country to 'Find and Fix' leaks.
- Completed over 39,000 leak investigations and completed 22,500 leak repairs.
- Laid 416km of water mains..

As a result of these leakage reduction activities the volume of drinking water lost during 2018 has been reduced by approximately 73.8 million litres per day (18 mld customer side savings and 55.8 mld public side savings). While we have made significant progress, leakage reduction will continue to be challenging as we repair networks that are old, complex and overstretched. With the vast majority of leaks underground, leak repair also means gaining access to pipes that are under other service connections (e.g. gas, electricity, telecoms) in built-up areas. This requires careful and detailed advance planning with other utilities and service providers.

Future Proofing

Supporting Economic and Spatial Development

We are investing in a range of programmes that will future-proof the economy and support growth at national, regional and local levels. During the year we worked with Local Authorities to support their regional and local plans, as well as other agencies, to plan for the future of water services and infrastructure. The Strategic Funding Plan 2019–2024 lays out the arrangements that Irish Water proposes to make and how progress will be measured between 2019 and 2024 to implement the objectives of the Water Services Policy Statement.

We are developing a Network Extensions Programme where Irish Water will provide support to the Local Authorities in their efforts to open up priority residential development lands.

Our Capital Investment Plan includes a provision for Irish Water to carry out studies and develop concept designs for local network reinforcement projects in development "hotspot" areas. This will help to ensure that Irish Water can respond quickly and effectively to support housing development in areas of greatest need.

Our national water conservation campaign across TV, press, radio and social media encouraged householders and businesses to undertake additional water conservation measures.

Capacity and Resilience

The Irish Water Crisis Management Team was mobilised for long and sustained periods of the past year to proactively manage a number of national weather events and network disruption incidents (such as Storms Eleanor and Emma, the Staleen mains burst and the summer drought conditions). Ensuring that our network remained operational during these challenging conditions required close working co-ordination with Local Authorities, the National Emergency Coordination Group for Severe Weather, Government Departments, Met Eireann, and other partners and agencies. During these events Irish Water highlighted the key role conservation plays in the efficient management of water as a precious resource.

Drought

During the summer Ireland faced the worst drought conditions since records began. At the height of the drought 20 water treatment plants were at drought emergency levels and a further 135 plants were at risk. For the first time, Water Conservation Orders (commonly known as "hosepipe bans") were enacted on users of public water supplies, initially on a localised level on July 1st and then on a national level from July 4th. The extended dry conditions resulted in unprecedented depletion of surface and ground water supplies.

The response to these drought conditions included the provision of alternative water supplies by tankering water to depleted reservoirs; altering on-going projects and programmes; intensifying leak detection and repair activities; and identifying and activating alternative water sources such as boreholes. Our national water conservation campaign across TV, press, radio and social media encouraged householders and businesses to undertake additional water conservation measures. We also worked with specific customers and industries to offer tailored advice and support.

Contingency and Forward Planning

We continue to refine our contingency planning processes to further improve our response to crisis events. We regularly test our responses including communication protocols.

Building Capability

Safety

We are actively promoting a Work Safe, Home Safe culture internally and across the industry. We hosted multiple safety workshops and conferences with our Local Authority colleagues and for the wider supply chain. In 2018 Irish Water sponsored the Construction Industry Federation's Safety Week. For more information on our safety performance please see page 59.

Customer Focus

We are committed to a best-practice approach to customer service and operations, and we are focused on improving our engagement with customers. In 2018, 381,803 customer calls were answered, 69,153 work orders issued and 15,714 outbound calls made to customers on Irish Water's vulnerable customer register. We are constantly refining our service channels to give customers easier access to information and services, and our channels of engagement expanded to include Facebook and increased use of SMS text messaging.

We continued to engage with a wide range of external stakeholders in 2018 in order to improve service delivery. This included providing elected representatives with water service updates on behalf of their constituents and distributing up-to-date information to community groups and local media.

Transforming the Industry

The *Water Services Policy Statement 2018–2025* includes the high level principle that there will be *"one single publicly owned national water services authority"*. Based on this principle the public water system is to remain in public ownership with public water services delivered by an efficient single regulated public national water services authority, accountable to the Oireachtas.

The Single Public Utility, once fully implemented, would allow us to standardise operations and processes, delivering major performance benefits. We are committed in 2019 to continuing to work with all parties in an open and constructive manner to deliver the optimum outcome for customers.

Funding Water Services

Irish Water welcomed the approval by the Government of its Strategic Funding Plan 2019–2024 in November 2018. Following this, we made our Revenue Control submission for the period 2020–2024 to the Commission for the Regulation of Utilities and it will hold a public consultation on this submission in early 2019 before a final decision is made.

In the period from 2014 to 2018 Irish Water has delivered cumulative operational efficiencies of €142m. These cost efficiencies were achieved through procurement, supply chain and energy management.

Connection Charging Policy

The Commission for Regulation of Utilities published its final decision in December 2018 on a single set of national connection charges for water services and a standardised scope of work for each connection. The new policy will come into effect on April 1st 2019. Up to now, the 31 Local Authorities across the country had 57 charging regimes with different methods for calculating connection charges, including different structures and customer service levels. The Irish Water national policy simplifies and clarifies charging for all by:

- Setting out Standard Connection Charges for the majority of connecting customers.
- Ensuring the charge for connections is based on service need and not the development floor area of the property.
- Providing an end-to-end connection service to customers in a consistent, safe and comprehensive manner.

Procurement

Our goal is to source the most cost-effective procurement solutions to maximise the benefits for our customers. We achieve this by developing competitive strategic sourcing processes, building up effective relationships with key suppliers and optimising the supply chain.


Gas
Networks
Ireland

Gas Networks Ireland – Operating Review

We delivered a strong financial performance in 2018, maintaining our high investment grade ratings of A with Standard & Poor's and A3 with Moody's Investor Services. With safety as our priority for our assets and operations, we invested €143m in gas and telecoms network infrastructure and focused on driving growth and increasing new connections.

Moving our network towards a low carbon energy future, we completed site acceptance testing of the first renewable gas injection facility in Cush, County Kildare and commissioned Ireland's first publicly-accessible Compressed Natural Gas filling station. In acknowledgement of our responsible and sustainable business practices, we achieved the Business Working Responsibly Mark for the third time.

Through our telecoms business, Aurora Telecom, we announced plans to enhance Ireland's digital connectivity and started works on the final phase of a second Dublin to Cork fibre optic link.

Denis O'Sullivan
Managing Director,
Gas Networks Ireland

Overview

Addressing climate change is a key priority for our business. We are committed to innovation in energy and to playing a leading role in decarbonising Ireland's energy future.

Gas Networks Ireland owns and operates the natural gas network in Ireland. The safe, reliable transportation of natural gas and the delivery of a consistently excellent, cost-effective service that benefits all our customers is at the core of what we do. Currently 700,000 homes and businesses across 21 counties avail of a safe, efficient and secure supply of natural gas every day.

Our world-class gas network comprises 14,390km of gas pipelines including two sub-sea interconnectors. In 2018, we continued our investment to extend the network to Listowel in County Kerry, to Wexford town and to the new Center Parcs site in County Longford.

As an energy source, natural gas is of strategic importance to Ireland. With a 30% share of Ireland's primary energy mix, it is an important driver of job creation and economic growth. Approximately 52% of our electricity is produced using natural gas. This varies across the year and across seasons. In June and July, we witnessed record levels when natural gas demand for power generation hit an all-time high. During this period up to 90% of the country's electricity supply was generated from natural gas, as warm weather saw renewable generation at an average of only 14%. The gas network also performed well during Storm Emma in early March 2018, with no disruption to service for our customers.

We believe natural gas has a major role to play in helping Ireland meet its environmental targets. Addressing climate change is a key priority for our business. We are committed to innovation in energy and to playing a leading role in decarbonising Ireland's energy future.

In 2018, commissioned the country's first publicly-accessible station in Dublin Port. We also embarked on an ambitious plan to convert agricultural and food waste into a carbon-neutral source of energy in the form of renewable gas.

Through our telecoms business, Aurora Telecom, we committed to increasing Ireland's international connectivity and digital capability, announcing the start of works on the final leg of our second Dublin to Cork dark fibre link. This section of network serving Cork, Waterford, Kilkenny, Carlow and Kildare will open up new regional job creation opportunities from both Irish and international investments.

Operating Environment

In 2018, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 74.4TWh (supplied through the Moffat Interconnector and the Corrib and Kinsale Head gas fields), an increase of 0.8% on 2017. 78% of this gas was delivered for use in the Republic of Ireland with the remaining 22% transported to the Isle of Man and to Northern Ireland.

During the year, 56% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field, 39% were met through UK imports, with the remaining gas supplied from the Kinsale Head gas fields.

Regulations and Tariffs

The EU continued to develop a single internal energy market in 2018, with further studies planned in 2019 which will inform the new gas package expected to be delivered in 2020. The Security of Gas Supply Regulation (2017/1938) is being implemented and Gas Networks Ireland is liaising with the Commission for Regulation of Utilities and the Department of Communications, Climate Action and Environment on the plan from an Irish perspective.

The Commission for Regulation of Utilities re-established the Network Tariff Liaison Group in 2018 to consult on the implementation of the EU Network Code on harmonised transmission tariff structures for gas (2017/460).

GNI (UK) Ltd

In compliance with the EU Network Code on the Balancing of Transmission Networks (2014/312), Gas Networks Ireland commenced trading on the Energy Broking Ireland Gas Trading Platform in June 2018, to secure the gas we need to physically balance the network (i.e. maintain pressures within operating ranges). We also introduced a new publicly-accessible Transparency Data Portal which provides industry with hourly, daily and monthly updates in relation to key system information.

Gas Networks Ireland developed market arrangements for the first injection of renewable gas to the network and we are also implementing a Green Gas Certification scheme in Ireland to ensure that renewable gas can be certified and counted towards Ireland's climate change targets.

Brexit

Throughout 2018, Gas Networks Ireland continued to engage with all relevant stakeholders in Ireland, the UK and Brussels in relation to the potential impact of Brexit, including other pipeline operators in Northern Ireland, Great Britain, Belgium and the Netherlands. A key focus for 2018 was ensuring that we are prepared for a 'no deal' Brexit and that all the necessary arrangements are in place.

Customer Switching

As operator of the gas network we facilitate the process of gas customers switching from one supplier to another. In 2018, there were nine competing suppliers active in the market. During the period from January 2018 to December 2018, over 137,000 gas customers changed supplier, a new 12 month record. Since the gas market opened to competition in 2004, over 1 million gas supplier switches have been undertaken in Ireland.

A wholly-owned subsidiary of Gas Networks Ireland, GNI (UK) Ltd operates and part owns the high-pressure pipelines running from Moffat, in Scotland, to Ireland and the Isle of Man, via subsea pipelines which supply the Republic of Ireland, Northern Ireland and Isle of Man.

It also owns and operates two pipelines in Northern Ireland, the South North pipeline running from Gormanston, Co. Meath to Co. Antrim and the North West pipeline running from Carrickfergus to the Coolkeeragh power station.

The twinning of a 50km section of the Southwest Scotland Onshore System from Cluden to Brighouse Bay was commissioned late in 2018. The completion of this project will enhance the operational flexibility of the Irish gas network as well as improving security of supply.

GNI (UK) Ltd is regulated by the Commission for Regulation of Utilities in relation to the Republic of Ireland network and the Utility Regulator in Northern Ireland and Ofgem, in the UK.

Aurora Telecom

During 2018, Aurora Telecom began work on the Cork to Dublin leg of its national fibre network. Scheduled for completion in Q3 2019, the new 302km section of network will serve Cork, Waterford, Kilkenny, Carlow and Kildare.

When completed, Aurora Telecom will have an ultra-high capacity, national ring fibre network of over 1,100km. It will link its extensive Dublin Metropolitan Area Network with the midlands, west, south and east, providing future-proof capacity to meet the long-term broadband requirements of the towns and cities along its route. This will be a major advancement for Ireland's connectivity, opening up new opportunities for businesses and strengthening Ireland's position as a major international technology hub and centre for foreign direct investment.

Aurora Telecom serves the connectivity needs of some of the largest technology companies in the world and facilitates sub-sea transatlantic fibre connectivity to Ireland. Its financial performance was strong in 2018, with a turnover of €4.7m, due to a number of significant fibre projects such as its appointment as lead backhaul supplier for international subsea cable companies, data centres and content and application providers. Underpinning this success is strong market demand including growth in the number of data centre investments in Ireland and demand for national and international connectivity from data intensive services such as cloud computing, storage and mobile data.

In conjunction with Gas Networks Ireland, Aurora Telecom has enabled a fibre and gas solution for Data Centre Operators. Aurora Telecom's fibre network's proximity to the gas network facilitates a secure energy supply which, along with high capacity fibre connectivity, is a key driver for data centre location.

Progress against Strategic Objectives in 2018

A number of key strategic objectives determined our business focus for 2018.

Delivering Operational Excellence

Safety

Gas Networks Ireland is committed to the highest possible safety standards and during 2018 continued to manage all aspects of operations in a safe and environmentally-responsible manner. Our comprehensive Safety, Environmental, Quality, Energy and Asset Management Systems, independently certified to ISO 45001, ISO 14001, ISO 9001, ISO 50001 and ISO 55001, ensure our activities are managed in accordance with international best practice. In 2018, we were one of the first companies in Ireland to be certified to the new ISO 45001 standard for occupational health and safety management.

We provide a best-in-class emergency response service. In 2018, we responded to 16,883 publicly-reported escapes of gas with an average response time of 32 minutes, and 99.3% compliance within one hour.

Gas Networks Ireland also continued to promote public safety awareness via a range of campaigns, including Gas Emergency Service, Dial-Before-You-Dig, Meter Tampering, Always Use a Registered Gas Installer and Carbon Monoxide.

Operations

Our capital expenditure of €143m included ongoing programmes to improve the safety and reliability of the network in 2018.

In September 2018, the Gas Networks Ireland's Asset Management System was recertified to ISO55001. This internationally-recognised certification confirms that Gas Networks Ireland's system for identifying the appropriate capital and maintenance activities on the network is best-in-class and enables us to optimise these decisions for the long-term benefit of the network and gas customers.

We also delivered over 38,000 planned maintenance work orders in 2018, across transmission and distribution networks.

Key 2018 projects completed:

- 40km feeder main bringing natural gas to Kerry Ingredients and the town of Listowel.
- 28km feeder main bringing natural gas to Center Parcs and Ballymahon, Co. Longford.
- Capital works in Brighouse Bay and Beattock compressor stations in Scotland, overhauling the gas cooling and air-intake systems.
- Significant multi-utility project in Wexford Town bringing gas and water infrastructure upgrades.
- 50km twinning pipeline project in Scotland.
- Construction of a Compressed Natural Gas facility in Dublin Port.

We also commenced work on the first renewable gas injection site at Cush, County Kildare and supported the launch of the Gas Market Operator in Northern Ireland, improving commercial operations for all Northern Ireland gas shippers.

Putting our Customers First

Gas Networks Ireland is committed to delivering for customers and in 2018, we delivered high quality services to 700,000 domestic and commercial customers. During this period 83,710 customer appointments were made and a 98.1% compliance rate was achieved in meeting those appointments.

Over 2.1m meter reads were conducted during the year and our Contact Centre handled over 500,000 customer contacts. We also met our customer satisfaction score targets across all activities surveyed.

"...in 2018, we delivered high quality services to 700,000 domestic and commercial customers. During this period 83,710 customer appointments were made and a 98.1% compliance rate was achieved in meeting those appointments.

Gas Networks Ireland –
Operating Review (continued)

“

At Gas Networks Ireland we are progressing with our plan for a national network of 70 Compressed Natural Gas refuelling stations, both public and private.

We continue to be recognised by our peers, being nominated in the Customer Experience Impact Awards for CX impact in Utilities in Ireland and for the CSR category in the Customer Contact Association Global Awards. We presented on our customer service performance at the World Gas Conference in Washington DC in June.

We helped customers manage their energy costs by enabling supplier switching and by installing prepayment meters. These meters now constitute 16.6% of the total residential meter population. In 2018, we exchanged in excess of 27,000 meters under our domestic meter replacement programme.

Our People

During 2018, Gas Networks Ireland continued its commitment to developing the skills and competencies of staff, delivering a number of new training programmes. We also welcomed 7 new apprentices to our Apprenticeship Programme, which is facilitated in partnership with SOLAS. Over four years, they will receive mentor-led training in Plumbing, Electrical Instrumentation and Mechanical Automation and Maintenance Fitting.

Delivering Financial Performance

Gas Networks Ireland's profit before tax and exceptional items for 2018 was €149m. Capital expenditure, at €143m, was down on 2017 by €4m.

The regulated transmission tariff for 2018/2019 decreased by 6%, year-on-year, with the distribution tariff decreasing by 3.7% compared with 2017. Gas Networks Ireland continues to have access to appropriate credit facilities over the term of the current price control, with a €450m revolving credit facility to 2022. We secured funding in December of €100m from the European Investment Bank as part of the investment in the country's energy network. The funding enables us to continue to modernise and extend Ireland's gas network, including the completion of the Scotland – Ireland interconnector project.

Securing the Future

New connections to the gas network continued in 2018 with 10,727 new commercial and residential customers contracted. This will add 790GWh of new demand to the network and includes one contracted data centre and the continued roll-out of the gas network in Wexford and Listowel.

At Gas Networks Ireland we are progressing with our plan for a national network of 70 Compressed Natural Gas refuelling stations, both public and private. During 2018, we commissioned Ireland's first publicly accessible high capacity fast fill Compressed Natural Gas station, located at the Circle K Service Station in Dublin Port. Two stations are in the pre-construction phase and scheduled for completion in 2019. A further four stations are at final contract stage, in addition up to 40 heavy goods vehicles have been supported through the Compressed Natural Gas vehicle support scheme. Gas Networks Ireland has also been shortlisted for funding from the Climate Action Fund for its GRAZE gas project. This project will deliver the first transmission connected Central Grid Injection facility for renewable gas, a renewable gas logistics operation, two Compressed Natural Gas stations and a vehicle support scheme.

During the year, Gas Networks Ireland received approval for €11.6m of EU funding from the Connecting Europe Facility Transport Fund for Green Connect, a project to deliver twenty one Compressed Natural Gas stations, 4 mobile Compressed Natural Gas refuelling units, four renewable gas injection facilities and a Compressed Natural Gas vehicle support scheme.

> *We launched a major new advertising campaign 'Progress Naturally' to highlight how Gas Networks Ireland is developing a cleaner energy future for Ireland.*

Ireland's first renewable gas injection facility at Cush, County Kildare commenced construction in July and was commissioned in December 2018. It has the capacity to inject up to 130GWh per annum of renewable gas into the grid from circa four Anaerobic Digestion facilities within a 50km radius. The first renewable gas will be produced at the Green Generation facility in Nurney, County Kildare. Gas Networks Ireland also commenced the design of a Central Grid Injection facility to be located in the Mitchelstown area with a capacity to inject over 560GWh per annum from circa 20 farm based Anaerobic Digestion facilities within a 50km radius. Over the next five years, Gas Networks Ireland plans to construct eight injection points with a combined annual capacity of 3,000GWh.

Throughout the year, we continued to advocate actively for natural gas and to highlight its critical role in Ireland's current and future energy policy. Our growth strategy was supported by national media partnerships such as TV3's The Restaurant and radio sponsorships and also included an enhanced digital experience for customers wishing to connect to natural gas. We launched a major new advertising campaign 'Progress Naturally' at the end of the year to highlight how Gas Networks Ireland, through natural gas and through energy innovation such as renewable gas, is developing a cleaner energy future for Ireland.

Investing in Strategic Infrastructure

Gas Twinning Project, Scotland

During 2018, we completed construction on the second Scotland to Ireland Gas Interconnector, delivering the remainder of the 50km of gas pipeline from Brighouse Bay to Cluden in Scotland. A European Project of Common Interest and an important project for the Irish economy, this will reinforce security of energy supply across Ireland, facilitating the transport of additional gas supplies from Beattock, in south west Scotland, to Gormanston in Co. Meath.

The pipeline, which will be operated and maintained to the highest national and international safety standards, was commissioned late in 2018.

Limerick Gasworks Remediation

- The remediation of the former gasworks site at the Dock Road in Limerick continued during 2018. The removal of coal tar from the former gasworks site at the Dock Road in Limerick continued during 2018. This environmental project will benefit not only the local environment but also the wider Limerick community. Works to construct a capping layer over the remaining land commenced in the first quarter of 2019.

Corporate Responsibility

At Ervia we believe Corporate Responsibility (CR) to be a vital part of how we do business. Our CR activities underpin our commitment to enhancing the health and quality of life of the people of Ireland, protecting our environment and enabling economic and social development.

We focus on the communities we serve, our marketplace, our workplace and the environment we work hard to protect.

In the Community

Throughout 2018, our Ervia in Action programme has been delivering a national volunteering partnership with a grant giving initiative for local communities across Ireland. With this we have helped develop and improve these communities nationwide.

In 2018, for the third consecutive time, Gas Networks Ireland achieved recertification to the Business Working Responsibly (BWR) Mark, in line with ISO26000, from Business in the Community Ireland. The only independently-audited standard for Corporate Responsibility, the Mark certifies responsible and sustainable business practices and is recognised worldwide. Gas Networks Ireland is one of only 33 companies in Ireland to hold this Mark.

Promoting STEM subjects and the study of science at second-level is a key part of Gas Networks Ireland's Corporate Responsibility strategy. We launched a new national primary school STEM programme in 2018, called Energize, to over 5,000 6th class students nationwide. Energize covers five modules on the fundamentals of science from renewable energy awareness to carbon monoxide safety.

In addition Gas Networks Ireland continued to support a number of nationwide community initiatives including promoting literacy with the Time to Read programme in primary schools; employability with Skills at Work in secondary schools; and the development of life skills through our sponsorship of the cross-border Youth Leadership Project with Co-operation Ireland. Over 1,265 volunteering hours were contributed by Gas Networks Ireland employees, achieving over 45,000 student impact hours.

During 2018 Irish Water maintained its funding of partnerships and community programmes. These programmes promote positive behaviours in water and wastewater related activities in homes and businesses and increase awareness of water-related issues and the benefits of making simple positive changes.

Irish Water continued in partnership with An Taisce to deliver the Clean Coasts initiative. This includes the Think Before You Flush and Think Before You Pour campaigns. The aim is to raise public awareness of the impact of fats, oils and greases and sewage related litter such as wipes, cotton buds and sanitary products on our wastewater system. These campaigns also provide advice on how to correctly dispose of these items to protect wastewater networks and the marine environment.

We also partnered with the Green-Schools environmental education and awards programme to promote sustainability. The Water Theme looks at developing awareness around water conservation and how to effectively manage this important resource in schools and at home. It encourages schools and students to examine how they use water and provides practical ideas, actions and solutions to reduce consumption levels and increase sustainability.

Twenty multi-school student forums have been held around the country each year since Irish Water began to sponsor the Green-Schools programme. The forums enable schools to engage with each other and share their knowledge and experience of the Green-Schools Water Theme.

In the academic year 2017/2018, 131,140 students in 533 schools involving 10,471 teachers participated in the Water Theme of the Green-Schools programme. 141 Green Flags for water were awarded and 389 million litres of water were saved by participating schools.

In November 2018 Irish Water became a partner in a new pilot education programme in Dublin's North East Inner City, where many of the Irish Water staff and offices are based. Known as P-TECH (Pathways in Technology) the new six-year education model integrates third level modules and workplace experiences alongside second level schooling, with the aim of enabling students to earn a third-level qualification and skills required to enter the workforce. This is the first programme of its kind in Ireland and gives Irish Water a chance to support our local communities through structured workplace learning, with mentoring, worksite visits, speakers, project days, skills-based and paid internships.

In the Marketplace

At Ervia we are committed to ensuring customer satisfaction. With customer service being one of our five core values as a company, we work hard to provide excellent communication. Our Customer First programme helps provide best in class service. It aims to identify and deliver excellent service to customers both inside and outside the company. Its core areas of focus are:

- Providing a consistent service.
- Offering a channel of choice.
- Getting it right the first time.
- Being proactive.
- Continuously improving.

In 2018 Gas Networks Ireland initiated the roll out of a set of guiding principles in order to aid employees in supporting the Customer First approach. This was to complement the Customer Experience Monitoring Programme, which seeks to better understand customer needs and to continuously improve by collaborating with our partners such as Local Authorities and Registered Gas Installers of Ireland.

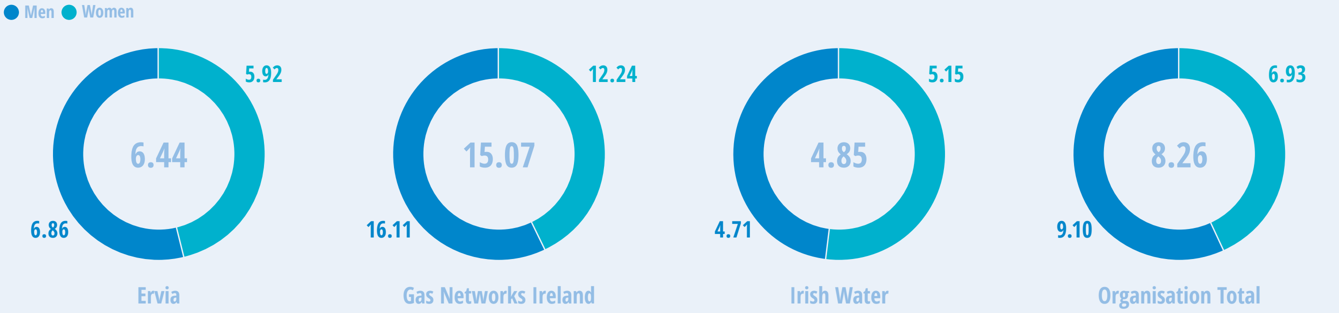
In Irish Water there is a focus on constantly improving the quality of the experience for customers through constant communication. In 2018, we changed how we communicate with customers on drinking water quality. We commenced direct communication with all users of schemes that were on the Environmental Protection Agency's Remedial Action List, with some agreed exceptions. This change was in support of the Water Services Policy Statement 2018–2025 which calls for better engagement with, and more transparency for users of public water supplies.

Irish Water is working on a number of efficiency and effectiveness programmes to deliver best-in-class services for our customers. We are focused on improving the quality of supply, our responsiveness and the experience customers have when they engage with us.

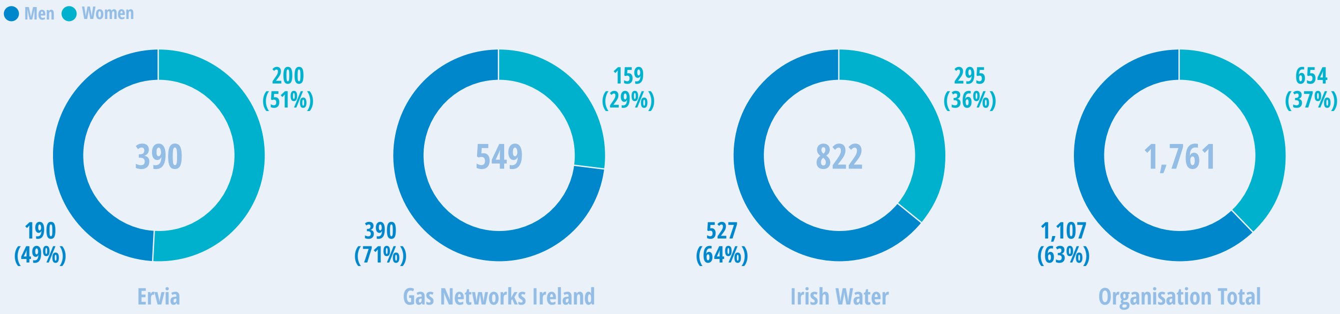
We are committed to increasing transparency in the provision of public water services. We will continue to operate in accordance with our statutory requirements including planning and public consultations, regulated price controls, funding requirements and business plans and strategies. Beyond this, we regularly proactively communicate and consult with a wide range of community, environmental and business interest groups and their elected representatives. We will continue to engage in proactive two-way communications with all relevant stakeholders on our journey to become Ireland's leader in infrastructure and service delivery.

Corporate Responsibility
(continued)

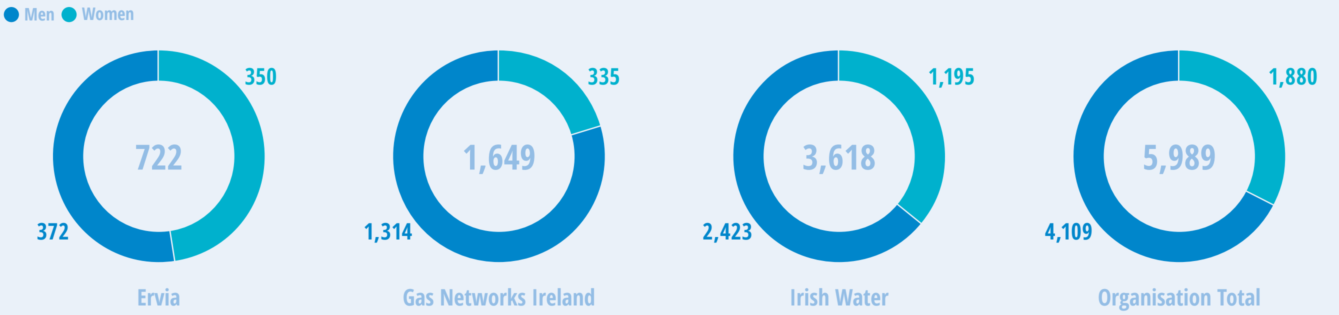
AVERAGE LENGTH OF SERVICE – YEARS



GENDER – EMPLOYEES



TRAINING COMPLETED - DAYS



In the Workplace

At Ervia our overarching ambition is that the people who work across our company feel like this is a great place to work, and that their experience of coming to work every day is enriching and rewarding. Our five core values of collaboration, integrity, customer service, safety, and performance shape and inform our ways of working and are key enablers of our company culture.

As an organisation we are committed to listening to our people in a number of ways. This includes engagement surveys, connecting with our people through focus groups on our culture ambitions and a program of two way leadership communications. By continuing to listen and address areas that are important for our people, we can take really positive steps to shape our culture, improve how we do things and how we support our people, and most of all make Ervia a great place to work.

We aim to create an environment where all of our people find their role both personally and professionally rewarding. These are a sample of some of the employee related initiatives that we implemented over the past year:

- Performance Coaching and Feedback Initiative: We have developed a key initiative to support our people managers across our organisation to ensure that meaningful and quality performance and career discussions are happening for our people.
- Visible Leadership: We have focused on rolling out a comprehensive series of internal communications programmes such as Leadership Roadshows and open door initiatives, to ensure that all our teams feel connected to the leadership and purpose of the organisation.
- Employee Well Being: We aim as an organisation to provide a safe and healthy work place and have supported this ambition through specific programs in the areas of occupational resilience, mental health awareness and healthy living initiatives.
- Agile Working: We are committed to providing a work place which allows all our people to balance their professional lives with the many and important personal commitments to ensure that a work life balance can be a reality. We have introduced agile working in 2018 which will allow our teams to have additional flexibility with respect to working time and or location.

As an organisation we are entrusted every day with the provision of essential services to the people of Ireland and we will only be able to do this through our people. We will continue to listen to the great ideas that our people generate. We will build on the work already undertaken in 2018 to ensure that all our people feel that not only is their contribution valued but that the experience of being part of Ervia is rewarding.

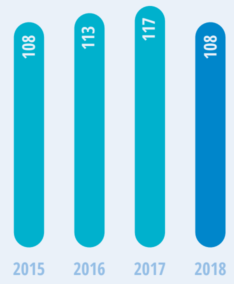
Safety

At Ervia we put safety at the heart of what we do. There was a total of 5 employee Lost Time Injuries (LTIs) in 2018. The incidents were of low severity and for an employee base of 1,761 this represents excellent safety performance. However we will continue to strive to achieve zero injuries. The employee total Lost Time Injury Rate* (LTIR) was 0.19 and the reportable LTIR was 0.15. Our Work Safe, Home Safe programme continues to deliver measurable improvements to our safety performance, communications, leadership and culture. In 2018 we saw significant improvements in our proactive safety indicators such as the number of hazard reports and the number of safety leadership conversations held.

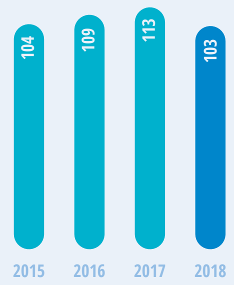
There was a total of 103 Contractor LTIs in 2018 against a total of 113 in 2017. Over the course of 2018 Ervia has continued to work closely with our supply chain to continuously improve safety performance and work towards zero injury occurrences. This will remain a key area of focus for Ervia in the future.

* Number of incidents per 100,000 hours worked

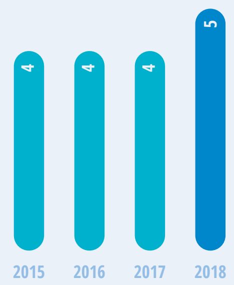
TOTAL LTIS



CONTRACTORS LTIS



EMPLOYEE LTIS



In the Environment

“

We are implementing a business wide sustainable energy strategy, aligned with the UN Sustainable Development Goals, to ensure the sustainable management of water services.

As guardians of Ireland’s gas, water and wastewater assets we have a responsibility to protect the environment in which we operate and to act responsibly through our activities.

Ervia also believes that by engaging with our suppliers and supply chain partners we can provide responsible and sustainable operations, in particular through our procurement and contract management processes.

The European Union (Energy Efficiency) Regulations (S.I. No.426 of 2014) requires us to publish an annual statement describing the actions we are taking, or have taken, to improve our energy efficiency and an assessment of the energy savings arising from those actions.

Irish Water Energy Usage

Irish Water accounts for 21% of public sector energy consumption and is by far the largest consumer of electricity in the public sector. The provision of water and wastewater services requires more than 1,000GWh of energy per year, equating to two hundred and thirty thousand tonnes of carbon dioxide. In wastewater services energy is mostly used in pumping and aeration in the treatment processes. Water supply pumping accounts for by far the largest portion of energy used. The processing and transport of sludge from water and wastewater treatment facilities also has a significant energy requirement. Our energy base demand will continue to increase in line with economic activity, population growth and higher standards required to safeguard the environment and support economic growth. All plans, projects and programmes use the Irish Water Energy Efficient Design standard. This ensures the improvement of the energy efficiency of water and wastewater services and reduces total life cycle costs and emissions of carbon dioxide.

Energy efficiency improvement is a key mitigation measure of our climate change policy to help ensure water and wastewater services are resilient to climate change. We are implementing a business wide sustainable energy strategy, aligned with the UN Sustainable Development Goals, to ensure the sustainable management of water services. The aim is to delink energy use from emissions through energy efficiency improvements and decarbonising energy sources. It sets out how we aim to achieve a 33% improvement in our energy efficiency by 2021, against a base year of 2009.

In collaboration with our partners, we have delivered an energy efficiency improvement of more than 22% to date with a corresponding saving of over 50,000 tonnes of carbon dioxide or the amount of carbon dioxide absorbed annually by nearly 5 million trees.

Measures taken in 2018 to achieve long-term sustainable energy efficiencies included:

- Progressing energy efficiency projects across our operations including pumping, aeration, renewable energy, lighting and heating.
- Committing to a new strategic initiative with the Sustainable Energy Authority of Ireland to embed energy efficiency in our operations.
- Agreeing new targets for our sustainable energy strategy across a number of strands including energy projects, new projects, innovation and renewable energy.
- Further embedding Energy Efficiency Design to ensure a high level of energy performance and efficient energy use.

Key objectives planned for 2019 include:

- Embedding an asset management approach to energy efficiency.
- Implementing our sustainable energy strategy.
- Decarbonising our energy consumption.
- Improving energy efficiency by upgrading and replacing inefficient plant and processes.
- Reducing our demand for energy by reducing leaks.
- Upskilling staff on Energy Efficiency Design.
- Continuing to embed Energy Efficiency Design into business activities.

Gas Networks Ireland Energy Usage

Similarly, Gas Networks Ireland is conscious of its impact on the environment and the community. As guardians of Ireland's gas infrastructure, we aim to deliver our services in a sustainable manner and to contribute to the protection of the environment.

In 2018, we focussed on the areas of biodiversity, climate change and waste management. We successfully transitioned to the Environmental Management System ISO14001:2015 and maintained our certification to the Energy Management System ISO50001:2011.

We actively participate in the National Energy Efficiency Action Plan, aimed at delivering 33% energy efficiency savings in the Public Sector by 2020. We contribute to the annual public sector monitoring and reporting scheme. We disclose annual energy usage, and associated initiatives undertaken and planned in order to further improve energy performance. From a 2006 baseline we are committed to continuing to improve energy performance having already achieved over 42% energy efficiency improvements.

In 2018 we signed the Business in the Community Ireland Low Carbon Pledge, agreeing to reduce greenhouse gas emissions by half by 2030. We also co-chair the Transition to a Low Carbon Economy Group, comprising representatives from some of the companies who hold the Businesses Working Responsibly Mark. The Group meets regularly to agree collaborative action to improve the sustainability of the Irish business sector.

"In 2018 we signed the Business in the Community Ireland Low Carbon Pledge, agreeing to reduce greenhouse gas emissions by half by 2030.

Energy use across Gas Network Ireland's assets is summarised below;

ENERGY USE - DIRECT CONSUMPTION (R.IRELAND ASSETS ONLY)	2017 (GWH TFC)	2018 (GWH TFC)
Electricity	6.56	6.04
Natural Gas	1.86	1.55
Diesel	2.13	2.39
Petrol	0.01	0.01

> *Gas Networks Ireland actively participates in the National Energy Efficiency Action Plan, aimed at delivering 33% energy efficiency savings in the Public Sector by 2020.*

In 2018 Gas Networks Ireland undertook a series of initiatives to improve its energy and environmental performance, including:

- Committing to the carbon pledge as part of a Business in the Community Initiative.
- Enhancing the environmental and energy working group, enabling a more integrated and strategic approach to environmental and energy use.
- Successfully transitioning to the Environmental Management Systems standard ISO 14001:2015 and maintaining certification to Energy Management Systems standard ISO 50001:2011.
- Continuing the fleet renewal programme to optimise energy efficiency, through driver training and energy efficient procurement.
- Continuing the deployment and national rollout of compressed natural gas vehicles and infrastructure.
- Promoting and encouraging behavioural change amongst employees with respect to using energy efficiently.
- Deploying Ireland's first renewable gas injection facility.
- Securing the Business Working Responsibly Mark.
- Producing our first sustainability report.
- Supporting the All-Ireland Pollinator Plan 2015–2020.
- Implementing a biodiversity enhancement programme across our asset base.
- Shortlisted for Chambers Ireland CSR award for our Biodiversity Programme.
- Conducting biodiversity awareness workshops with employees to promote the importance of biodiversity.
- Collaborating with Cork City Council and South Dublin County Council on biodiversity projects.

Gas Networks Ireland intends to further improve environmental and energy performance in 2019 by:

- Maintaining the Energy Management Systems standard ISO 50001:2011 and the Environmental Management System ISO14001:2015 certification.
- Continuing to develop objectives to reduce our impact on the environment.
- Driving objectives in relation to sustainability, climate change and waste management.
- Further embedding the environmental and energy working group.
- Supporting the All Ireland Pollinator Plan and continuing to roll out Biodiversity initiatives.
- Rolling out compressed natural gas vehicles and infrastructure.
- Promoting and encouraging behavioural change amongst employees with respect to energy efficiency and environmental performance.

Governance Report

The Board in 2018

Tony Keohane
(Chairman)

Appointed: July 5^{th} 2016

Term: 5 years

Board Committees: Remuneration, Project 23

Career: Alumni of INSEAD, expert in strategic development of businesses and organisations, Ex-Chairman of ECR Ireland and Ex-Chairman of Tesco Ireland, CEO of Tesco Ireland from February 2006 until July 2013.

External Appointments: Chairman of Repak and the Malone Group, Board of Sam McCauley Chemists and An Bord Bia, strategic advisor in his own consultancy business.

Mike Quinn
(Group Chief Executive Officer)

Appointed: October 31^{st} 2017

Term: 5 years

Board Committees: Investment/Infrastructure, Project 23

Career: Joined Ervia in October 2017 from Bord na Móna where he held the role of Chief Executive Officer. He joined Bord na Móna in 2015 having worked as a Group Vice President for Precision Castparts (PCC), a global aerospace company, where he led a group of five companies with locations in the USA, India, China, the UK and Ireland. Prior to joining PCC, Mike held various senior management positions in Tellabs, Stryker and Lufthansa Tecknik. He spent the earlier part of his career working in engineering roles with Amdahl Ireland and Apple Computers.

Chris Banks

Appointed: July 5^{th} 2016

Term: 5 years

Board Committees: Investment/Infrastructure, Single Public Utility

Career: Commercial Director at Scottish Water from 2002–2014 during its formative period and business transformation within public sector ownership. He held responsibility for Procurement including Asset Delivery partnerships, Energy management, Property & Facilities, IT, Fleet, Non-regulated businesses in Renewables, Contracting and International Consultancy, and Market opening for Retail Competition. Previously he has worked at board and senior management level in Building Products, Minerals and Shipping industries.

External Appointments: Non-executive Director and strategic advisor to a number of UK water utility, consultancy, services and support companies.

Fred Barry

Appointed: July 5^{th} 2016

Term: 4 years

Board Committees: Investment/Infrastructure, Single Public Utility, Project 23

Career: CEO of the National Roads Authority, Group Managing Director of various Jacobs companies.

External Appointments: Chairman of the National Transport Authority, Non-Executive Director of the PM Group, Director of the Irish Academy of Engineering.

Peter Cross

Appointed: January 20^{th} 2015

Term: 5 years

Board Committees: Audit and Risk

Career: Formerly Chief Financial Officer of Eircom, Chief Financial Officer of BT Openreach, Group Director of Corporate Finance of BT Group plc, Trustee of the BT Pension Scheme, Chairman of the Audit Committee of the HSE and various corporate finance positions in London with Morgan Stanley and Barings. Fellow of the Institute of Chartered Accountants in Ireland.

External Appointments: Managing Director of Trasna Corporate Finance, Board member of Cubic Telecom, Fellow of the Institute of Chartered Accountants in Ireland.

Celine Fitzgerald

Appointed: January 20th 2015	
Term: 5 years	
Board Committees: Single Public Utility, Project 23	
Career: CEO of Rigney Dolphin between 2007–2012, Customer Relationship Management in Vodafone and Eircell.	
External Appointments: Own consulting business (Integro consulting), Non-Executive Director of VHI	

Keith Harris

Appointed: July 5th 2016

Term: 3 years

Board Committees: Audit and Risk, Remuneration, Project 23

Career: Senior Executive and Board positions at Wessex Water, Global Head of Regulation at Enron/Azurix.

External Appointments: Director and Audit Committee Chairman at South Staffordshire Water, Advisory Board Member of private equity firm Buckthorn Partners, Associate of OXERA, Owner of the advisory business Lorraine House, Industry partner in AIP Asset Management.

Sean Hogan

Appointed: January 20th 2015

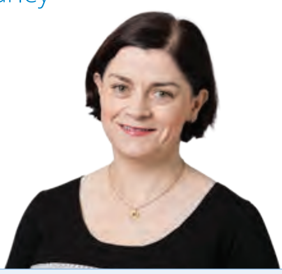
Term: 5 years

Board Committees: Audit and Risk, Single Public Utility

Career: Chairman of Northern Ireland Water Limited from March 2011 – March 2015.

External Appointments: Fellow of the Institute of Leadership and Management and the Institute of Directors and sits on its Business and Environment Committee.

Mari Hurley



Appointed: June 12th 2018 (having previously been appointed on June 11th 2013)

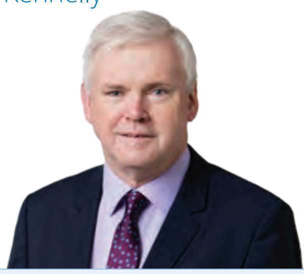
Term: 5 years

Board Committees: Audit and Risk, Remuneration

Career: CFO of Hostelworld Group plc, Finance Director of Sherry FitzGerald Group, Bear Stearns Bank plc.

External Appointments: Appointed to the Board of NAMA in April 2014.

Finbarr Kennelly



Appointed: December 12th 2017 (having previously been appointed on December 11th 2012)

Term: 5 years

Board Committees: Audit & Risk, Remuneration

Career: Senior positions with the Gardiner Group, Financial Controller of Alcatel Business Systems Ireland, Finance and Operations Director of Golf Vacations Ireland.

External Appointments: Former Board Member of the Housing Finance Agency plc, mentor with Plato Ireland.

Joe O'Flynn

Appointed: July 10th 2018 (having previously been appointed in January 2015, November 2013 and November 2008)

Term: 3 years

Board Committees: Project 23

Career: Former Lord Mayor of Cork and former city councillor.

External Appointments: General secretary of SIPTU, director of 2 SIPTU affiliated bodies, Treasurer of the Irish Congress of Trade Unions and a member of its Executive Council, Member of the Executive Board of the International Transport Federation.

Report of the Board

Governance Statement

Ervia is a statutory body existing under the laws of Ireland and established pursuant to the Gas Act 1976 (as amended).

Governance

The Ervia Board ("the Board") is accountable to the Minister for Housing, Planning and Local Government ("the Minister") for the overall performance of the Group and for ensuring good governance.

Ervia recognises that good corporate governance is pivotal to its success and to this end we continuously review and update our policies and procedures to comply with best practice. This report outlines how Ervia and its subsidiary companies, Gas Networks Ireland and Irish Water, have applied the principles and complied with the provisions set out in the Code of Practice for the Governance of State Bodies ("the Code"). The Board is satisfied that Ervia has complied with the applicable requirements of the Code throughout the year under review.

As a statutory body, Ervia is not subject to the provisions of the Companies Act 2014, but its subsidiaries are. As required by section 225(2) of this Act, the Directors of each subsidiary company must acknowledge that they are responsible for securing its compliance with the Act's relevant obligations. The directors of Gas Networks Ireland and Irish Water have drawn up Compliance Policy Statements, and have put in place arrangements and structures that are, in the directors' opinion in each case, designed to secure material compliance with the relevant obligations. For details of the principal legislation under which Ervia and its subsidiaries operate and to access the key documentation which underpins Ervia's corporate structure, refer to our website at www.ervia.ie.

Roles and Responsibilities of the Board

The Board is responsible for leading and directing Ervia's activities which are implemented within a framework of prudent and effective controls that enable risk to be assessed and managed.

The Board takes all significant strategic decisions, retaining full and effective control of the Group's activities, while delegating regular day-to-day management to the Chief Executive Officer and his Executive Team. The CEO and Executive Team are required to implement the strategic direction set by the Board and to ensure the Board has a clear understanding of their key activities, decisions and performance results and of any significant risks likely to arise. The CEO acts as a direct liaison between the Ervia Board and management.

The Board has put in place a corporate governance structure which delegates authority to its Committees to carry out certain tasks on its behalf so that it can give the right level of attention and consideration to those and other matters. Ervia's Board Committees are outlined in further detail on pages 70–71.

The activity of the Board and its Committees is planned annually to ensure that there is effective supervision and control of the Group's business. The work and responsibilities of the Board are set out in the Ervia Governance Framework, available at www.ervia.ie. The Framework also contains the matters specifically reserved for Board decision, as summarised below. Standing items considered by the Board at each meeting include:

- Declaration of any conflicts of interests.
- Reports from Committees.
- Financial reports/management accounts.

Formal Schedule of Matters Reserved for the Ervia Board

The Formal Schedule of Matters reserved for the Board, as set out in the Ervia Governance Framework, includes, in respect of all Group entities, approval of the following:

- Safety policy.
- Annual budgets.
- Multi-annual business plans.
- All contracts and expenditure with a value in excess of €10m.
- Annual Reports and Annual Financial Statements.
- Appointment/removal of auditors.
- Treasury matters.
- Significant amendments to pension schemes.
- Terms of employment of senior management.
- Code of Business Conduct.
- Enterprise Risk Management policy, Anti-Fraud Policy, Protected Disclosures Policy and Anti-Bribery and Anti-Corruption Policy.

Matters Considered by the Board in 2018

Strategy	▸ Strategic Direction of Ervia. ▸ Ongoing dialogue with Ervia's shareholder on strategic issues.
Safety	▸ Health and safety metrics for the Group. ▸ Bi-annual safety updates.
Operations	▸ CEO's Operations Report including Key Performance Indicators. ▸ Capital investment evaluations.
Corporate Governance	▸ Board evaluation. ▸ Amendments to Board Committee Terms of Reference. ▸ Establishment of new Board Committee to oversee separation of Irish Water from Ervia during 2023. ▸ Monitoring compliance with the Code of Practice for the Governance of State Bodies. ▸ Data Protection. ▸ Appointment of Managing Director of Irish Water.
Finance	▸ Annual published results. ▸ Monthly trading results including performance versus budget and forecast. ▸ Annual budget. ▸ Quarterly re-forecasts. ▸ Dividends. ▸ Funding. ▸ Irish Water Strategic Funding Plan.

Board Responsibilities Statement for the Annual Report and Financial Statements

The Board is responsible for the preparation of the Annual Report and the accompanying Financial Statements, which in the opinion of the Board, give a true and fair view of the state of affairs and profit of Ervia for the year. The Board has prepared the Financial Statements in accordance with applicable Irish law and International Financial Reporting Standards as adopted by the European Union. The Board maintains adequate accounting records in compliance with the obligations imposed by the Gas Act 1976 (as amended).

The Board is also responsible for reviewing the effectiveness of the system of internal controls comprising Financial, Operational, Compliance and Risk Management Controls and for reporting thereon to the Minister. Finally, the Board is responsible for safeguarding the assets of Ervia and for taking reasonable steps for prevention and detection of fraud and other irregularities.

In preparing the Financial Statements, the Board is satisfied that:

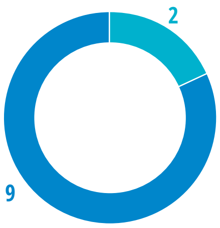
- suitable accounting policies have been selected and applied consistently;
- judgements and estimates used are reasonable and prudent;
- preparation of the Financial Statements on a going concern basis is appropriate;
- the Financial Statements give a true and fair view of the financial position of Ervia at December 31st 2018 and for the year then ended.

Report of the Board (continued)

The Board in 2018

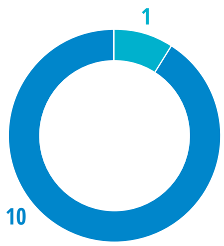
BOARD GENDER

Men Women



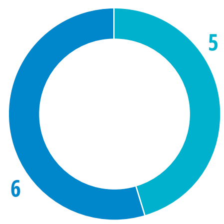
EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS

Non-executive Executive



NON-EXECUTIVE BOARD MEMBER TENURE

3+ years 0-3 years



Board members are outlined on pages 64–65.

Mari Hurley was re-appointed to the Board for a 5 year term with effect from June 12th 2018.

Joe O'Flynn was re-appointed to the Board for a 3 year term with effect from July 10th 2018.

Board Composition

The Board's composition is a matter for the Minister.

Decisions regarding the appointment and re-appointment of Board members are made by the Minister in accordance with the Guidelines on Appointments to State Boards as published by the Department of Public Expenditure and Reform in November 2014. The Chairman engages with the Minister in advance of Board appointments to highlight the specific skills and experience that are required on the Board.

Board Members have a blend of skills and experience and the necessary competence to support effective decision making. The Board is led by the Chairman, Tony Keohane, who is responsible for ensuring its effectiveness in all aspects of its role. The Senior Independent Director, Mari Hurley, acts as an intermediary for the Board Members where necessary and on matters where the Chairman has a conflict of interest or is otherwise unable to act. The Company Secretary is responsible for ensuring that Board procedures are complied with and for advising the Board through the Chairperson on governance matters generally.

Induction and Development of New Board Members

An induction programme is in place to familiarise new Board members with the operations of Ervia. Key elements are meeting with the Executive team and receiving a briefing pack detailing governance, financial and operational information.

Board Members have access to training programmes and their ongoing development needs are kept under review.

Independence

The Board is satisfied that the non-executive Board members are independent of management, in character and judgement, and free from relationships or circumstances that could affect, or appear to affect, their judgement and ability to meet the requirements of the role. Each Board member brings independent judgement to bear on issues of strategy, performance, resources and standards of conduct. Board members must declare any interest or relationship which could interfere with the exercise of their independent judgement.

Board Members' Remuneration, Expenses and Attendance

The Minister determines the fees payable to Board members. A schedule of attendance at the Board and Committee meetings for 2018 is set out below, including the fees and expenses received by each member.

BOARD MEMBER	REMUNERATION (€)	EXPENSES (€)	BOARD (ATTENDED/ ELIGIBLE)	AUDIT AND RISK (ATTENDED/ ELIGIBLE)	REMUNERATION (ATTENDED/ ELIGIBLE)	SINGLE PUBLIC UTILITY (ATTENDED/ ELIGIBLE)	INVESTMENT/ INFRASTRUCTURE (ATTENDED/ ELIGIBLE)	PROJECT 23 (ATTENDED/ ELIGIBLE)
Mike Quinn (CEO)	Note 1	Nil	13/15	-	-	-	9/11	2/2
Tony Keohane (Board, Remuneration Committee and Project 23 Chairman)	31,500	246	14/15	-	8/8	-	-	2/2
Joe O'Flynn	Note 2	Nil	5/7	-	-	-	-	2/2
Sean Hogan (SPU Chairman)	15,750	3,423	14/15	5/5	-	4/4	-	-
Peter Cross (Audit and Risk Chairman)	15,750	218	14/15	5/5	-	-	-	-
Celine Fitzgerald	15,750	218	14/15	-	-	3/4	-	2/2
Mari Hurley	15,689 Note 3	Nil	14/15	5/5	8/8	-	-	-
Finbarr Kennelly	15,750	116	13/15	5/5	7/8	-	-	-
Keith Harris	15,750	2,188	15/15	5/5	8/8	-	-	1/2
Chris Banks	15,750	624	15/15	-	-	4/4	11/11	-
Fred Barry (Investment/ Infrastructure Chairman)	15,750	218	15/15	-	-	4/4	11/11	2/2

Note 1 – Did not receive a Board fee in compliance with Guidelines on Contracts, Remuneration and Other Conditions of Chief Executives and Senior Management of Commercial State Bodies

Note 2 – Board fee waived on a discretionary basis

Note 3 – Term of office expired on 10 June 2018, re-appointed on 12 June 2018

Board and Committee Effectiveness and Evaluation

The Board conducts an annual evaluation of its own performance and that of its Committees. The evaluation relates to the Board's and Committee's collective performance and not the individual performance of Board members.

The evaluation methodologies applied by the Board to determine its effectiveness are as follows:

Internal Evaluation	The Board self-assessment questionnaire as provided in the Code is circulated to the Board. Completed questionnaires, including views on performance and recommendations for improvement, are returned directly to the Chairman. The Board formally concludes on its own performance, on the performance of committees, including the Chairman. Agreed actions are implemented by the Chairman during the year.
External Evaluation	In order to comply with the provisions of the Code, an external performance evaluation of the Board and its Committees is conducted every 3 years. An external evaluation was facilitated in 2018 and the outputs from this review will be considered during 2019.
Non-executive Board Member evaluation	Non-Executive Board members carry out a performance evaluation of the Chairman taking into account the views of the CEO. Non-Executive Board members also carry out a performance evaluation of the CEO.

Board Committee Composition

The Board has an effective Committee structure in place to assist in the discharge of its responsibilities, with additional "specific purpose Committees" being formed to deal with matters requiring particular attention from the Board.

Three Committees of the Board assist in the discharge of its responsibilities and are delegated specific responsibilities by the Board as set out in their Terms of Reference. In addition, the Single Public Utility Committee and the Project 23 Committee are specific purpose Committees established to provide oversight of specific projects, outlined below.

Audit and Risk Committee

Activities undertaken by the Audit and Risk Committee in 2018 are outlined in the Audit and Risk Committee Report on page 78. The Audit and Risk Committee met 5 times during the year.

Investment/Infrastructure Committee

The Investment/Infrastructure Committee's responsibilities are set out in its Terms of Reference available at www.ervia.ie.

The Investment/Infrastructure Committee held eleven meetings during the year.

In 2018 the Investment/Infrastructure Committee reviewed:

- Capital project evaluation and investment planning approach.
- Major Projects and related cost estimates.
- All capital expenditure proposals in excess of €10m.
- Large connection agreements.
- Irish Water Capital Investment Plan.
- Upcoming tenders.
- Supply chain management strategy.
- Investment policies and procedures.

Remuneration Committee

The Remuneration Committee's responsibilities are set out in its Terms of Reference available at www.ervia.ie.

The Remuneration Committee held eight meetings during the year.

Key activities undertaken by the Remuneration Committee in 2018 include:

- Recruitment of the Irish Water Managing Director.
- Reviewed the CEO's and other senior managers' performance for 2017.
- Set targets for the CEO and Executive team for 2018.
- Reviewed and considered succession plan for the CEO and Executive Team.
- Review of Ervia pay model.

Single Public Utility Committee (formerly known as the Water Industry Operating Framework Committee)

The Single Public Utility Committee's responsibilities are set out in its Terms of Reference available at www.ervia.ie.

The Committee held four meetings during 2018.

Key activities undertaken by the Single Public Utility Committee in 2018:

- Review of Single Public Utility model.
- Stakeholder Management.
- Review of the Business plan for Single Public Utility.

Project 23 Committee

The Project 23 Committee was established by the Board in August 2018 to oversee the separation of Irish Water as a standalone, publicly owned, commercial, regulated utility from the Ervia Group during 2023.

The Project 23 Committee met twice during 2018.

Key activities undertaken by the Project 23 Committee in 2018:

- Review of draft Separation Plan.
- Review of the Shareholders Expectation letter.

Disclosures Required by the Code of Practice for the Governance of State Bodies

The Board is responsible for ensuring that Ervia has complied with the requirements and disclosures of the Code. The following financial disclosures are required by the Code to be outlined in the Annual Report. These disclosures relate to Ervia and Gas Networks Ireland, but do not include Irish Water (and prior year figures have been restated to exclude Irish Water). Refer to the Irish Water Annual Report for the relevant disclosures in respect of Irish Water.

Analysis of Employee Benefits

Details of the number of employees whose total employee benefits (excluding employer pension costs and termination benefits) for the year for each band of €25,000 from €50,000 upwards are set out below.

	2018	2017
€50,000-€75,000	**344**	344
€75,001-€100,000	**192**	179
€100,001-€125,000	**95**	100
€125,001-€150,000	**40**	38
€150,001-€175,000	**19**	19
€175,001 and above	**27**	27

Note: All short-term employee benefits in relation to services rendered during the reporting period are included in the disclosure above. Refer to note 5 of the Financial Statements for further analysis of the various benefits included.

Consultancy Costs

Consultancy costs include the directly incurred cost of external advice. They are defined as engagements to provide intellectual or knowledge-based services (e.g. expert analysis and advice) through delivering reports, studies, assessments, recommendations, proposals, etc. that contribute to decision or policy-making for a limited time period to carry out a specific finite task. They exclude outsourced 'business-as-usual' functions. Where consultancy work is contracted by Ervia on behalf of its subsidiaries (including Irish Water), its related cost is included here rather than in the subsidiary's disclosure.

	2018 €'000	2017 €'000
Legal advice	**357**	1,222
Financial advice	**790**	1,474
Human resources	**17**	771
Business improvement/development	**1,107**	3,174
Other	**679**	2,789
Total consultancy costs	**2,950**	9,430
Capitalised	**229**	63
Income statement	**2,721**	9,367
Total consultancy costs	**2,950**	9,430

Legal Costs and Settlements

The table below provides a breakdown of amounts recognised as expenditure in the reporting period in relation to legal costs, settlements, conciliation and arbitration proceedings. This does not include expenditure incurred in relation to general legal advice, as this is included in consultancy costs above.

	2018 €'000	2017 €'000
Legal fees – legal proceedings	**529**	1,159
Conciliation	**-**	42
Settlements	**603**	263
Total	**1,132**	1,464
Number of legal cases	**6**	11

Note 1: This disclosure note excludes payments made by our insurance company.

Note 2: The number of cases relates to cases initiated by Ervia itself or legal proceedings taken against it, and excludes insurance proceedings and wayleave conciliations.

Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2018 €'000	2017 €'000
Domestic		
Board *	**18**	21
Employee	**2,614**	2,915
International		
Board	**-**	-
Employee	**302**	164
Total	**2,934**	3,100

* includes travel and subsistence of €7,250 paid directly to Board members in 2018 (2017: €8,437). The balance of €10,744 (2017: €12,797) relates to expenditure paid by Ervia on behalf of the Board members. Travel and subsistence expenditure incurred by the executive Board member is deemed to be incurred in their capacity as an employee.

Hospitality

The income statement includes the following hospitality expenditure:

	2018 €'000	2017 €'000
Staff hospitality	**161**	190
Client hospitality	**84**	105
Total	**245**	295

Transparency

Ervia, as a commercial state body, is an open organisation which strives to be accountable and transparent to the public. Ervia has developed a Transparency Policy to enhance our accountability and in recognition of our duties as a responsible corporate citizen. Ervia is committed to improving the public's understanding of how the organisation operates and our role in delivering important national infrastructure and services to support the social and economic development of Ireland.

Protected Disclosures and Raising Concerns	The mechanism whereby Ervia's employees and management may raise concerns, or make disclosures in the public interest, in accordance with the Protected Disclosures Act 2014, is outlined in the Ervia Protected Disclosures Policy. Further guidance on raising concerns for management and employees is outlined in the Code of Business Conduct and the Anti-Bribery and Anti-Corruption Policy. Section 22 of the Protected Disclosures Act 2014 requires Ervia to publish an Annual Report relating to protected disclosures made under the Act. In accordance with this requirement, Ervia confirms that in the year ending December 31st 2018, there were 2 protected disclosures reported relating to the gas networks business which are currently under investigation.
Regulation of Lobbying	Ervia and its subsidiaries (Gas Networks Ireland and Irish Water) are registered on the lobbying register maintained by the Standards in Public Office Commission and have made the required submissions for the return periods in 2018 in accordance with the requirements of the Regulation of Lobbying Act 2015.
Prompt Payments	Appropriate internal financial controls are in place within Ervia to ensure compliance with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2012–2016. Controls include setting clearly defined roles and responsibilities, monthly reporting and a review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest in respect of late payments was paid in 2018. Ervia is a signatory to the Prompt Payment Code as launched by the Government in 2015, and pursuant to its provisions, undertakes to pay suppliers on time, to give clear guidance to suppliers on payment procedures and to encourage the adoption of the code by suppliers within their own supply chains.

Modern Slavery

Ervia prides itself on conducting its business in an ethical and responsible way. The UK Modern Slavery Act 2015 imposes obligations on organisations of a certain size which conduct business in the United Kingdom.

Gas Networks Ireland and GNI (UK) Limited (a wholly owned subsidiary of Gas Networks Ireland) are applicable entities for the purposes of the Modern Slavery Act and are fully supportive of the aims of the Act.

Model Publication Schemes

Section 8 of the Freedom of Information Act 2014 requires that Ervia's subsidiary companies, Irish Water and Gas Networks Ireland, must conform with the model publication scheme published by the Department of Public Expenditure and Reform. Under the scheme, Irish Water and Gas Networks Ireland publish as much information as possible in an open and accessible manner on a routine basis outside Freedom of Information requests, having regard to the principles of openness, transparency and accountability as set out in Sections 8(5) and 11(3) of the Act.

Publication Schemes for each of Irish Water and Gas Networks Ireland are published on their respective websites, www.water.ie and www.gasnetworks.ie.

Although Ervia is not itself subject to Freedom of Information legislation, it strives to apply the principle of transparency to all it does and therefore adheres to the model publication scheme by publishing relevant information on its website, www.ervia.ie.

Statement on the System of Internal Controls

Scope of Responsibility

The Board acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code.

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a tolerable level rather than to eliminate it and can only therefore provide reasonable but not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or detected in a timely way.

The system of internal control, which accords with guidance issued by the Department of Public Expenditure and Reform, has been in place in Ervia for the year ended December 31st 2018 and up to the date of approval of the Financial Statements.

Management of Risk

All employees of Ervia are responsible for the effective management of risk which includes designing, operating and monitoring the systems of internal control. The Group CEO is the accountable executive with ultimate responsibility. The Group CEO delegates clear roles and responsibilities for effective risk management and for ensuring the systems of internal control are operating effectively to his Executive Team and their reports. Ervia has an Audit and Risk Committee ("the ARC") comprising 5 non-executive Board members who have the necessary expertise required for the role. The duties and responsibilities of the ARC in relation to Ervia enterprise-wide risk management, are to assist and make recommendations to the Board on the discharging of the Board's responsibilities as they relate to this area.

Ervia has an established Internal Audit function which is adequately resourced and conducts a programme of work agreed with the ARC. The Group Head of Internal Audit reports directly to the ARC and to the Group Chief Financial Officer.

Ervia also has an established Risk Management function which is adequately resourced and is responsible for the design and implementation of an Enterprise Risk Framework and for ensuring that sufficient risk management experience and skills are available throughout the organisation. The Head of Risk Management reports to the Group Chief Financial Officer and attends all ARC meetings.

In particular, the Risk Management function:

- Ensures that adequate and consistent processes and oversight are in place for identifying, measuring, managing, monitoring and reporting of risks to which Ervia is exposed.
- Ensures that oversight is maintained and an assessment is undertaken of the Ervia risk profile including principal risks, emerging and trending risks and high impact low probability risks, including a description of these risks and associated mitigation measures or strategies and their effectiveness.
- Embeds an appropriate risk management culture.

Ervia has a responsibility under the Code to ensure effective systems of internal control are maintained and operated. An assessment of the effectiveness of these controls is required annually. In order to address this requirement Ervia developed the Integrated Assurance Forum ("IAF") which reports to the Group Chief Financial Officer. A revised integrated assurance process was rolled out across Ervia in 2017 and continued to evolve in 2018.

The IAF meets quarterly to confirm all assurance activities and required sign-offs are co-ordinated and evidenced in a structured manner. This culminates with the IAF, at year-end, providing assurance to the Board on the effectiveness of the controls. The IAF process, along with numerous other governance, risk and control activities across Ervia, supports the Board in signing-off on Statement on the System of Internal Controls.

Risk and Control Framework

The Board has overall responsibility for ensuring the Group has an appropriate risk management system in place. The Board has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and financial implication of risks facing Ervia including the extent and categories which it regards as acceptable.
- Assessing the likelihood of identified risks occurring.
- Assessing Ervia's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies.
- Establishing an anti-fraud training programme for all staff.

The ARC provides oversight of these activities on behalf of the Board and is responsible for assisting the Board in discharging its responsibilities as they relate to this area. On a quarterly basis, the ARC performs a substantive review of the Group Risk Register prepared by management, ensuring oversight of the key risks and reviewing the effectiveness of management's responses to key risk exposures facing the Group. The ARC also reviews the overall integrity of the risk management system including the effectiveness of the risk function.

The Group maintains a comprehensive suite of formal policies and procedures, to ensure that appropriate delegation practices are implemented across the Group. The policies and procedures include the setting and maintenance of appropriate authorisation limits, the establishment of appropriate segregation of duties and the documentation of processes and controls that are focused on preventing and detecting fraud.

The Board confirms that a control environment, containing the following elements, is in place:

- Responsibility by management at all levels for internal control and risk management over respective business functions.
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Board.
- Comprehensive budgeting systems with an annual budget subject to Board approval.
- A comprehensive system of financial reporting. Cumulative monthly actual results are reported against budget and considered by the Board on a monthly basis. The Board questions variances and remedial action is taken where appropriate.
- A comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require Board approval, and are closely monitored on an ongoing basis by the Board's Investment/Infrastructure Committee.
- A comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon.
- A risk management process enabling identification and assessment of risks that could impact achievement of agreed business objectives and ensuring appropriate mitigating measures and controls are put in place.
- A Group Risk Management Committee chaired by the Chief Executive Officer which reports to the Audit and Risk Committee.
- A Code of Conduct requiring all employees to maintain the highest ethical standards.
- A comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan.
- An Anti-Bribery and Anti-Corruption policy enacted with associated training for all staff.
- A Corporate Governance Framework, including financial control and risk assessment.
- Internal Audit and Risk Management functions both conduct systematic reviews of internal financial and operational controls. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment.
- An Integrated Assurance Forum framework, which further consolidates and co-ordinates in a structured manner all assurance activities in the organisation across the "Three Lines of Defence". This ensures that Ervia maximises risk and governance oversight on control to build organisational resilience and follows leading practice/required under statute activities to meet all compliance obligations and governance requirements.
- Internal control framework assessment that involves undertaking an extensive risk assessment, reviewing the operation and effectiveness of key control policies and processes, internal control self-assessment reporting, monthly performance reporting, supported by assurance activities of Risk, Internal and External Audit.

There were no material issues highlighted in our internal control environment in 2018.

Report of the Board (continued)

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes, and control deficiencies are communicated to those responsible for taking corrective action and to management and the Board, where relevant, in a timely way. The Board confirms that Ervia has procedures to monitor the effectiveness of its risk management and control procedures.

The Board confirms that the following ongoing monitoring, by the ARC on behalf of the Board, is in place:

- Review and consideration of the programme of Internal Audit and consideration of its reports and findings.
- Review of regular reporting from Internal Audit on the status of the internal control environment, and the status of issues raised previously from their own reports.
- Review of the quarterly Risk Management Reports from the Group Risk Management Committee on risks, controls and implementation status of action plans.
- Review and consideration of the report by the Chief Executive Officer on the effectiveness of the operation of the systems of internal control, both financial and operational.
- Review of reports from the external auditors, which contain details of any material internal financial control issues.
- Review of Integrated Assurance Forum reports on Business Unit assurance over the system of internal control.

Ervia has a robust framework to review the adequacy and to monitor the effectiveness of internal controls covering financial, operational and compliance risks as well as risk management processes. The Board is satisfied that the system of internal controls in place is appropriate for the business.

Procurement

The Board is satisfied that there are procedures in place to ensure compliance with procurement rules and guidelines and that procurement policies and procedures have been developed and published for all staff. During the year ended December 31st 2018, Ervia complied with the relevant provisions of the Public Spending Code.

General Data Protection Regulation (GDPR)

GDPR came into effect across Europe in May 2018. A core requirement under GDPR is the appointment of a Data Protection Officer. The Ervia Group Data Protection Officer took up her role in May 2018 in advance of the new law taking effect. The Ervia Group Data Protection Officer has not raised any areas of concern regarding non-compliance with regards to legislative requirements under GDPR.

Review of Effectiveness

The Board confirms that Ervia has procedures to monitor the effectiveness of its risk management and control procedures. Ervia's monitoring and review of the effectiveness of the system of internal control is informed by the senior management within Ervia responsible for the development and maintenance of the internal control framework, the work of the internal and external auditors and the ARC which oversees their work.

The Board confirms that it has reviewed the effectiveness of the system of internal control up to the date of approval of the Financial Statements, covering financial, operational and compliance controls and risk management systems for 2018 and will ensure a similar review is performed for 2019. A detailed review was performed by the ARC, which reported on its findings to the Board.

Internal Control Reporting

Irish Water continues to manage a large number of assets with an aging infrastructure that requires significant investment. It faces ongoing challenges on its journey to deliver the business plan objectives. The key control procedures including the operation of the Local Authority protocols under the Service Level Agreements which manage the interaction processes between Irish Water and Local Authorities, continued to evolve and develop in 2018. Irish Water has continued to implement the required systems, processes and procedures necessary to ensure robust internal financial controls through applying Ervia's policies and internal control framework.

As part of its control framework, it should be noted that Irish Water continues to rely on certain controls operated by Local Authorities.

No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2018 that have not been or are not in the process of being addressed and that have not been brought to the attention of the Ervia Audit and Risk Committee.

External Auditor Review

The external auditors, Deloitte, have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances.

Conclusion

Risk Management

The Board carried out a robust assessment of the principal risks facing the organisation throughout 2018. These risks and mitigating controls or actions are set out on page 30.

Shareholder Relationship

Ervia operates independently from its parent Department (the Department of Housing, Planning and Local Government), but engages in active and ongoing consultation with its parent Department as required by legislation and the Code.

Compliance Statement

In developing its Corporate Governance Policy to ensure the Board carries out its role effectively, the Board has sought to give effect to the Code. The Chairman reported to the Minister for Housing, Planning and Local Government on compliance with the Code throughout the financial year.

Board Members' Interests

The Board Members had no interest in Ervia or its subsidiary companies during the year. The Company Secretary is a beneficiary of the Employee Share Ownership Plan.

The Board is satisfied that its members are free from any business or other relationships that could materially affect, or could appear to affect, the exercise of their independent judgement. Board members may hold directorships, executive positions or have interests in third party companies, including banks and financial institutions, some of which (or their affiliates) may, in the normal course of business, undertake transactions on an arm's length basis with Ervia. All Board members disclose any interest and recuse themselves from Board discussions and decisions where they are conflicted or have a direct or indirect interest as required by the Code. In such cases, a separate record (to which the Board Member does not have access) is maintained. Disclosure is provided, as required, in note 30 Related Parties to the Financial Statements of related party transactions where the Board member holds a material interest in the relevant entity.

Performance Evaluation

The Board approves an annual budget that supports the corporate plans. Actual performance versus plan and budget is evaluated annually. Detailed consideration is provided in the Operating Reviews on pages 41–55.

Accounting Records

The Board members believe that they have provided appropriate systems and resources including the appointment of suitably qualified accounting personnel with appropriate expertise to maintain adequate accounting records throughout the organisation to ensure compliance with Ervia's obligation to keep adequate accounting records. The books of account of Ervia are held at Webworks, Eglinton Street, Cork.

External Auditor

Deloitte were appointed as external auditor in 2014 for a three year period with an option to extend for up to two years.

In 2018, Ervia carried out a tender process with oversight by the Audit and Risk Committee to select the Group's next external auditor. Following completion of the tender process, Ministerial consent was received on March 25th 2019 to appoint Deloitte as external auditor for the Group for the years 2019, 2020 and 2021.

Going Concern

Financial Statements are prepared on a going concern basis once the Board, after making appropriate enquiries, is satisfied that Ervia has adequate resources to continue in operation for the foreseeable future.

For and on behalf of the Board:

Tony Keohane
Chairman

Peter Cross
Member of the Board

Audit and Risk Committee Report

As Chairman of the Ervia Audit and Risk Committee, I am pleased to present the Audit and Risk Committee Report for the year ended December 31st 2018.

Peter Cross
Chair of the Committee

In accordance with the unitary board structure in place in Ervia, the Audit and Risk Committee ("the Committee") is established at the Ervia Group level and acts in respect of Ervia and its subsidiaries ('the Group'). This report provides a review of the workings of the Committee over the last 12 months and details how the Committee has met its responsibilities under its Terms of Reference and under the Code of Practice for the Governance of State Bodies ("the Code").

During the year the Committee dedicated significant time to fulfilling its key oversight responsibilities. It has engaged regularly with senior management, Internal Audit, Risk Management and the Group's statutory auditor, in addition to pursuing a full agenda of reviews in its meetings throughout the year, in order to discharge its duties effectively. The Chairman of the Committee meets separately with senior management, Internal Audit, Risk Management and the Group's statutory auditor on a regular basis, in order to supplement this process.

Role and responsibilities of the Audit and Risk Committee

The role of the Committee is to support the Ervia Board in relation to its responsibilities for the following matters:

- Financial reporting,
- Risk management,
- Internal Controls,
- Internal audit,
- External audit,
- Other related activities, including policies and procedures on protected disclosures, anti-fraud and anti-bribery and anti-corruption.

The Chairman of the Committee reports to the Ervia Board on the matters addressed at each Committee meeting, and the Board receives all of the Committee's minutes.

The Committee's Terms of Reference set out the Committee's roles and responsibilities in detail and are available on Ervia's website (www.ervia.ie). These are reviewed annually.

Membership

The Committee comprises five independent Non-Executive Ervia Board Members. Members of the Committee are appointed by the Ervia Board in consultation with the Chairman of the Committee. For details of membership and attendance at meetings see the report of the Board on page 66. The Committee is independent from the management of the Group.

Financial Reporting

The Committee is responsible, on behalf of the Ervia Board, for monitoring the integrity of the Group's Financial Statements preparation and for reviewing the financial reporting judgements contained therein. The Financial Statements are prepared on behalf of the Board by a finance team with the appropriate qualifications and expertise.

During the year the Committee reviewed the draft financial statements before recommending their approval by the Ervia Board. The Committee considered, and discussed with the CEO, Group Chief Financial Officer and external auditor, the appropriateness of the significant accounting policies, estimates and judgements applied in preparing these financial statements, together with presentational and disclosure matters.

Risk Management

The Committee is responsible, on behalf of the Ervia Board, for monitoring the Group's risk management activities, developments in key risks and progress in delivery of the target risk profile, enabling the Ervia Board to confirm annually that it has carried out an assessment of the Group's principal risks.

During the year the Committee reviewed, in conjunction with senior management, the Group's risk profile, its risk management policies, its high impact/low probability exposures and its risk appetite and target profile for approval by the Ervia Board. The Committee was also kept apprised of the status of implementation of the General Data Protection Regulation across the Group throughout the year.

Consideration was given during the year to the establishment of new Anti-Bribery and Anti-Corruption policies, and these were approved by the Board in July 2018 coupled with an associated awareness campaign across the Group, highlighting Ervia's commitment to being an open and transparent organisation. The policies are available for review on our website www.ervia.ie.

Internal Controls

The Committee is responsible, on behalf of the Ervia Board, for reviewing the appropriateness and completeness of the Group's system of internal control and compliance, and reviewing whether the system of internal control operated effectively during the reporting period and gives appropriate early warning of any failures and emerging risks.

Ervia has a responsibility under the Code for ensuring that an effective system of internal control is maintained and operated. Ervia pursues this responsibility across its business units through senior management and through its "Integrated Assurance Forum", a management body which collates evidence from the various control activities performed across the Group to build a comprehensive picture of internal control and risk. Reporting to the Group Chief Financial Officer, the Integrated Assurance Forum provides a greater understanding of the assurance activities in place and makes recommendations for their enhancement, in order to mitigate risk and maximise governance oversight, helping also to identify and remediate any assurance gaps.

Internal Audit

The Committee is responsible, on behalf of the Board, for monitoring and reviewing the effectiveness and scope of the internal audit function including its plans, activities and resources so as to ensure it can effectively review the operation of the Group's controls over significant risks within the Group.

During 2018 the Committee reviewed the plans and work undertaken throughout the year by Internal Audit and the consequential actions to be taken by management. The Committee was informed regularly by the Head of Internal Audit of the findings of internal audit reviews. The Committee also considered management's progress in addressing relevant issues, including the nature, extent and timeliness of its responses. The Committee reviewed and agreed a risk-based internal audit annual plan for 2019, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group.

The Committee reviewed an external quality assessment of Internal Audit during the year, as well as performing its own annual evaluation of the performance of internal audit.

External Audit

The Committee is responsible, on behalf of the Ervia Board, for monitoring the external audit process.

The Committee monitored the integrity of the Group's financial statements and reviewed the appropriateness of the accounting policies and financial reporting issues contained therein having regard to matters communicated to it by the external auditor. The Committee also reviewed the external auditor's audit plans, reports and findings in relation to the audit, and discussed them with the auditor.

The Committee reviewed the external auditor's post-audit management letter and management's responses.

The Committee is also responsible, on behalf of the Ervia Board, for the initiation of audit tenders and the selection process for the external auditor, reviewing and monitoring the independence and remuneration of the external auditor.

The Committee took appropriate steps to ensure that an objective and professional relationship was maintained with the external auditor. The Committee carried out an assessment of auditor independence and objectivity which included reviewing:

- The nature and extent of the services provided, and fees earned, for external audit and non-audit work carried out by the external auditor.
- Compliance with the Group's policy governing the provision of non-audit services to the Group whereby clear rules and limits are in place, permitting non-audit services which do not present a conflict of interest.
- Assurances provided by the external auditor in this regard.

Audit and non-audit service fees are set out in Note 4 of the Financial Statements. There were no instances during the year where the external auditor was engaged to provide services which were deemed to give rise to a conflict of interest. The Committee also monitored the external auditor's compliance with relevant regulatory, ethical and professional guidance, as well as assessing annually its independence, qualifications, expertise, resources and the effectiveness of the audit process. The Committee is satisfied that Deloitte is both independent and objective.

The effectiveness of the external auditor is reviewed annually. The evaluation focuses on such areas as the robustness of the audit process, audit team, communications and governance. Overall the review was satisfactory. During the year the external auditors met privately with the Committee with no members of management present.

In order to ensure the independence and objectivity of the statutory auditors, the Committee reviews the procurement of non-audit services from the external auditor. Ervia's subsidiary, Gas Networks Ireland, is a Public Interest Entity ('PIE') as it has debt listed on a regulated market. As a result, its auditor may provide only those non-audit services which are permissible for PIEs in line with EU Directive (2006/43/EC as amended by Directive 2014/56 EU). Compliance with this rule is monitored throughout the year. The Committee adheres strictly to the 70% non-audit services fee cap prescribed in Article 4 of Regulation (EU) No 537/2014.

Audit Tendering and Appointment

The Committee considers the periodic reappointment of the external auditor and this process is subject to public tender. Deloitte were appointed as external auditor in 2014 for a three year period with an option to extend for up to two years.

During the year Ervia carried out a tender process with oversight by the Committee to select Ervia's next external auditor. Following completion of the tender process, Ministerial consent was received on March 25th 2019 to appoint Deloitte as external auditor for the Ervia Group for the years 2019, 2020 and 2021.

Audit and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2018, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

On behalf of the Audit and Risk Committee:

Peter Cross
Chairman, Audit and Risk Committee
26th March 2019

Financial Statements

Independent Auditor's Report to the Members of Ervia

Report on the audit of the financial statements

Opinion on the financial statements of Ervia

In our opinion the Group and Parent financial statements:

- give a true and fair view in accordance with IFRSs as adopted by the European Union, of the state of the Group and Parent affairs as at 31 December 2018 and of the profit of the Group and Parent for the financial year then ended; and
- have been properly prepared in accordance with the requirements of the Gas Acts 1976 to 2009.

The financial statements we have audited comprise:

the Group financial statements:

- the Group Income Statement;
- the Group Statement of Other Comprehensive Income;
- the Group Balance Sheet;
- the Group Statement of Changes in Equity;
- the Group Statement of Cash Flows; and
- the related notes 1 to 31, including a summary of significant accounting policies as set out in note 1(c).

the Parent financial statements:

- the Parent Income Statement
- the Parent Statement of Other Comprehensive Income;
- the Parent Balance Sheet;
- the Parent Statement of Changes in Equity;
- the Parent Statement of Cash Flows; and
- the related notes 1 to 18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Group and Parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the Board's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Board have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Board

As explained more fully in the Board Responsibilities Statement, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the Group and Parent's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Group and Parent or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the members of Ervia, as a body, in accordance with Section 15 of the Gas Act 1976. Our audit work has been undertaken so that we might state to the Parent's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Ervia and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Matters on which we are required to report

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion adequate accounting records have been kept by the Parent.
- The Parent Income Statement and Balance Sheet are in agreement with the accounting records
- In our opinion the information given in the Report of the Board is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Practice for the Governance of State Bodies (August 2016) (the "Code of Practice"), we are required to report to you if the statement regarding the system of internal control required under the Code of Practice as included in the Corporate Governance Statement in the Report of the Board does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it's not consistent with the information of which we are aware from our audit work on the financial statements. We have nothing to report in this respect.

Gerard Fitzpatrick
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date:

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Group Income Statement

for the year ended 31 December 2018

	NOTES	BEFORE EXCEPTIONAL ITEMS 2018 €'000	EXCEPTIONAL ITEMS (INCL CERTAIN REMEASUREMENTS) NOTE 9 2018 €'000	AFTER EXCEPTIONAL ITEMS 2018 €'000	BEFORE EXCEPTIONAL ITEMS 2017 €'000	EXCEPTIONAL ITEMS (INCL CERTAIN REMEASUREMENTS) NOTE 9 2017 €'000	AFTER EXCEPTIONAL ITEMS 2017 €'000
Continuing operations							
Revenue	3	**487,183**	**–**	**487,183**	473,175	–	473,175
Operating costs (excluding depreciation and amortisation)	4	**(192,470)**	**–**	**(192,470)**	(173,309)	–	(173,309)
Operating profit before depreciation and amortisation (EBITDA)		**294,713**	**–**	**294,713**	299,866	–	299,866
Depreciation and amortisation	8	**(131,067)**	**–**	**(131,067)**	(133,249)	–	(133,249)
Operating profit		**163,646**	**–**	**163,646**	166,617	–	166,617
Finance income	9	**–**	**1,397**	**1,397**	–	7,330	7,330
Finance costs	9	**(23,964)**	**(79)**	**(24,043)**	(25,297)	–	(25,297)
Net finance (costs)/income	9	**(23,964)**	**1,318**	**(22,646)**	(25,297)	7,330	(17,967)
Profit before income tax		**139,682**	**1,318**	**141,000**	141,320	7,330	148,650
Income tax expense	10	**(18,785)**	**(165)**	**(18,950)**	(20,900)	(385)	(21,285)
Profit for the year		**120,897**	**1,153**	**122,050**	120,420	6,945	127,365
Profit attributable to:							
Owners of the Parent		**120,897**	**1,153**	**122,050**	120,420	6,945	127,365
Profit for the year		**120,897**	**1,153**	**122,050**	120,420	6,945	127,365

For and on behalf of the Board:

Chairman	Member of the Board	26th March 2019 Date of Approval

Note:
As described in note 29, the financial statements of Irish Water are not consolidated with the results of the Group. See note 1(a) for definitions of exceptional items (including certain remeasurements).

Group Statement of Other Comprehensive Income

for the year ended 31 December 2018

	NOTES	2018 €'000	2017 €'000
Profit for the year		**122,050**	127,365
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains	21	**39,147**	10,023
Deferred tax expense relating to defined benefit obligations	10	**(4,893)**	(1,253)
Total items that will not be reclassified to profit or loss		**34,254**	8,770
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		**(418)**	(1,070)
Net change in fair value of cash flow hedges	10	**917**	(1,909)
Deferred tax on cash flow hedge movement		**(115)**	239
Total items that may be reclassified subsequently to profit or loss		**384**	(2,740)
Total other comprehensive income for the year, net of income tax		**34,638**	6,030
Total comprehensive income for the year		**156,688**	133,395
Total comprehensive income attributable to:			
Owners of the Parent		**156,688**	133,395
Total comprehensive income for the year		**156,688**	133,395

For and on behalf of the Board:

Chairman	Member of the Board	26th March 2019 Date of Approval

Note:
As described in note 29, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Balance Sheet

as at 31 December 2018

	NOTES	31-DEC-18 €'000	31-DEC-17 €'000
Assets			
Non-current assets			
Property, plant and equipment	11	**2,516,656**	2,514,229
Intangible assets	12	**21,614**	18,836
Derivative financial instruments	26	**13,242**	16,058
Total non-current assets		**2,551,512**	2,549,123
Current assets			
Trade and other receivables	14	**97,458**	148,309
Cash and cash equivalents	15	**131,826**	76,226
Restricted deposits	16	**26,700**	32,594
Derivative financial instruments	26	**12,172**	134
Inventories	13	**1,675**	1,059
Total current assets		**269,831**	258,322
Total assets		**2,821,343**	2,807,445
Equity and liabilities			
Equity			
Retained earnings		**(1,041,186)**	(1,029,071)
Translation reserve		**(673)**	(1,091)
Cash flow hedge reserve		**1,381**	2,183
Total equity attributable to equity holders of the Parent		**(1,040,478)**	(1,027,979)
Liabilities			
Non-current liabilities			
Borrowings and other debt	18	**(745,127)**	(1,084,213)
Retirement benefit obligations	21	**(98,381)**	(127,828)
Deferred revenue	22	**(9,716)**	(12,801)
Government grants	23	**(81,554)**	(72,073)
Provisions	24	**(7,201)**	(7,116)
Trade and other payables	25	**(6,916)**	(5,354)
Derivative financial instruments	26	**(3,957)**	(5,292)
Deferred tax liabilities	10	**(196,130)**	(194,669)
Total non-current liabilities		**(1,148,982)**	(1,509,346)
Current liabilities			
Borrowings and other debt	18	**(446,699)**	(101,288)
Deferred revenue	22	**(8,391)**	(7,951)
Government grants	23	**(6,458)**	(5,632)
Provisions	24	**(5,758)**	(5,676)
Derivative financial instruments	26	**(26)**	(294)
Trade and other payables	25	**(162,049)**	(145,088)
Current tax liabilities	10	**(2,502)**	(4,191)
Total current liabilities		**(631,833)**	(270,120)
Total liabilities		**(1,780,865)**	(1,779,466)
Total equity and liabilities		**(2,821,343)**	(2,807,445)

For and on behalf of the Board:

Chairman	Member of the Board	26th March 2019 Date of Approval

Note:
As described in note 29, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Changes in Equity

for the year ended 31 December 2018

	RETAINED EARNINGS €'000	TRANSLATION RESERVE €'000	CASH FLOW HEDGE RESERVE €'000	TOTAL €'000
Balance at 1 January 2017	(1,041,376)	(2,161)	513	(1,043,024)
Profit for the year	(127,365)	–	–	(127,365)
Other comprehensive (income)/expense for the year, net of income tax	(8,770)	1,070	1,670	(6,030)
Total comprehensive (income)/expense for the year	(136,135)	1,070	1,670	(133,395)
Dividends (note 20)	148,440	–	–	148,440
Balance at 31 December 2017	(1,029,071)	(1,091)	2,183	(1,027,979)
Profit for the year	**(122,050)**	**–**	**–**	**(122,050)**
Other comprehensive (income)/expense for the year, net of income tax	**(34,254)**	**418**	**(802)**	**(34,638)**
Total comprehensive (income)/expense for the year	**(156,304)**	**418**	**(802)**	**(156,688)**
Dividends (note 20)	**144,189**	**–**	**–**	**144,189**
Balance at 31 December 2018	**(1,041,186)**	**(673)**	**1,381**	**(1,040,478)**

All attributable to equity holders of the Parent.

Note:
As described in note 29, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Cash Flows

for the year ended 31 December 2018

	NOTES	2018 €'000	2017 €'000
Net cash from operating activities	17	**301,807**	224,273
Cash flows from investing activities			
Receipt/(payment) relating to the sale of Energy division		**20,172**	(1,614)
Payments for property, plant and equipment		**(121,602)**	(141,147)
Payments for intangible assets		**(5,494)**	(2,378)
Grants received	23	**9,256**	13,274
Net cash used in investing activities		**(97,668)**	(131,865)
Cash flows from financing activities			
Redemption of promissory notes		**(6,874)**	(9,001)
Proceeds from borrowings		**99,662**	99,350
Repayment of borrowings		**(102,249)**	(42,249)
Credit support arrangements		**–**	(3,630)
Dividends paid	20	**(139,089)**	(148,440)
Net cash used in financing activities		**(148,550)**	(103,970)
Net increase/(decrease) in cash and cash equivalents	15	**55,589**	(11,562)
Cash and cash equivalents at 1 January	15	**76,226**	87,915
Effect of exchange rate fluctuations on cash held	15	**11**	(127)
Cash and cash equivalents at 31 December	15	**131,826**	76,226

Note:
As described in note 29, the financial statements of Irish Water are not consolidated with the results of the Group.

Notes to the Group Financial Statements

Notes to the Group Financial Statements

1. Statement of Accounting Policies

(a) Basis of Preparation

Ervia is a corporate body established under the Gas Act 1976 and is domiciled in Ireland.

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year. In accordance with IFRS, non-controlled undertakings (including Irish Water), as set out in note 29, are not consolidated.

The Group and Parent financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as endorsed by the EU, and effective for accounting periods ending 31 December 2018.

The Group's significant accounting policies are set out in section c of this note. These policies have been consistently applied to all years presented in these financial statements. Refer to section b of this note for an impact assessment of transition to IFRS 15 and IFRS 9 from the effective date, 1 January 2018. In the process of applying these accounting policies, judgements and estimates are necessarily used which affect the amounts recognised in the financial statements. Refer to section d of this note for details of the critical accounting judgements and estimates applied.

The Board considers that the Group and the Parent has adequate resources to continue in operational existence for the foreseeable future. These financial statements are therefore prepared on a going concern basis.

These financial statements are prepared on a historical cost basis, except for certain assets and liabilities which are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Certain comparative balances have been restated in the financial statements to align with current year presentation, specifically note 4 Operating costs where sub-contractor costs are now presented within the expense caption "materials, maintenance and sub-contractor costs" compared to previous presentation within expense caption "hired and contracted services" and note 28 Operating leases primarily arising from a reassessment of the remaining lease terms. In addition, comparative balances in note 3 Revenue have been restated in accordance with the IFRS 15 requirements to provide additional revenue disaggregation disclosures.

As permitted by IAS 1 Presentation of Financial Statements, the Group has disclosed additional information in respect of certain remeasurements and exceptional items on the face of the income statement, to aid understanding of the Group's financial performance. These are presented in the column "Exceptional items".

Certain remeasurements arising on financial instruments are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. The Group does not use derivatives for speculative purposes. Further details of derivative financial instruments falling within the scope of IFRS 9 are set out in accounting policy (xi) below.

An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood, including certain remeasurements arising on financial instruments as set out above.

(b) New Accounting Standards and Interpretations

(i) Impact of adoption of IFRS 15 Revenue from Contracts with Customers.

In the current year, the Group and the Parent have applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the modified retrospective transitional approach, using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), and for modified contracts in IFRS 15:C5(c).

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the balance sheet and the Group has continued to use the more common terminology to describe such balances (refer to note 22 for details on deferred revenue).

1. Statement of Accounting Policies (continued)

The Group's accounting policies for its revenue streams are disclosed in detail in note 1 (c) (vi) below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 had no impact on the financial position and/or financial performance of the Group, as described in further detail below.

The adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to transportation capacity contracts which is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the period for each customer. In addition, the adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to new connections contracts, where the performance obligation is distinct to the connection works and revenue is recognised over time as the contracted connection works are completed.

Following detailed assessment of the Group's other revenue contracts with customers, no adjustment was recognised in the financial statements in respect of the adoption of IFRS 15.

(ii) Impact of adoption of IFRS 9 Financial Instruments

In the current year, the Group and the Parent have applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Group's financial assets as regards their classification and measurement.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The Group having regard to the nature and credit risk of its financial assets, has not identified any transition adjustment in respect of the loss allowance as set out in Group note 14 (Parent note 9), arising from the adoption of IFRS 9.

(c) Classification and measurement of financial liabilities

IFRS 9 introduces a change in the classification and measurement of financial liabilities relating to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value

1. Statement of Accounting Policies (continued)

attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced. The adoption of these new requirements had no impact on the Group's hedging relationships.

(e) Disclosures in relation to the initial application of IFRS 9

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in no adjustments to the measurement of financial assets and financial liabilities previously measured under IAS 39. The application of IFRS 9 has had no impact on the cash flows of the Group or the Parent. The updated accounting policies are set in section (c) of this note.

(iii) Other standards first adopted by the Group in 2018 Financial Statements

In the current year, the Group has applied the new/revised IFRS, as set out in table 1, that are mandatorily effective under IFRS, as endorsed by the EU, for accounting periods beginning on or after 1 January 2018. The application of these amendments to standards did not have a material impact on the Group's financial statements for 2018.

Table 1: New standards, amendments to standards, and interpretations

STANDARD/AMENDMENT	EU EFFECTIVE DATE	ENDORSED BY THE EU
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	March 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	March 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment	1 January 2018	February 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle	1 January 2018	February 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance	1 January 2018	November 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	October 2017

(iv) Standards in issue but not yet effective

Table 2 sets out the standards, amendments to standards and interpretations that are in issue but are not yet effective under IFRS, as endorsed by the EU, for the year ended 31 December 2018 and thus have not been applied in preparing these financial statements.

Table 2: New standards, amendments to standards, and interpretations in issue but not yet effective

STANDARD/AMENDMENT	EU EFFECTIVE DATE[1]	ENDORSED BY THE EU
IFRS 16 Leases	1 January 2019	October 2017
IFRIC 23 Uncertainty over Income Tax	1 January 2019	October 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019	March 2018
IFRS 17 Insurance Contracts	1 January 2021[2]	(Outstanding)
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019	February 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019	March 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019	March 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	(Outstanding)
Amendment to IFRS 3 Business Combinations	1 January 2020	(Outstanding)
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020	(Outstanding)

1 IASB date provided if not yet endorsed by the EU

2 The IASB has tentatively decided to defer the effective date of IFRS 17 Insurance to periods beginning on or after 1 January 2022.

1. Statement of Accounting Policies (continued)

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019. This new standard has replaced IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change is to lessee accounting, where the distinction between operating and finance leases is removed, and effectively brings onto the balance sheet the accounting for assets and liabilities associated with operating leases. A depreciation charge and lease interest charge will be recognised in the income statement, replacing the rent operating cost which was recognised previously. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard. There will be no cumulative adjustment to retained earnings at the date of transition. The impact of adoption of the new standard will not have a material impact on the Group's reported profits, however minor classification impacts will arise between reported operating costs, depreciation and finance costs,that will be broadly neutral in aggregate. Additional balance sheet assets and liabilities will be recognised in respect of the Group's operating lease arrangements, being the present value of the future operating lease commitments of €16.3 million as at 31 December 2018, as set out in note 28, will be presented on the balance sheet as a lease liability, with a corresponding right of use asset (adjusted for prepaid rent/accrued rent at the date of transition). The Group will adopt the practical expedient offered by IFRS 16, whereby an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application, and instead, is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 and not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2018 but not yet effective, will not have a significant impact on the Group's financial statements.

(c) Significant Accounting Policies

(i) Basis of Consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. In accordance with IFRS, control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases.

In the Parent financial statements, investments in subsidiaries are carried at cost less any impairment charges.

ii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Group financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iii. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date (i.e. when control is transferred to the Group).

Goodwill is measured at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

1. Statement of Accounting Policies (continued)

iv. Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary and any components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(ii) Property, Plant and Equipment

i. Recognition

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes direct costs (including directly attributable labour and overhead costs), decommissioning or restoration costs and interest incurred in financing the construction of the asset when construction takes a substantial period of time to complete.

Assets under construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their productive use.

ii. Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use.

The charge for depreciation is primarily calculated to write down the cost of property, plant and equipment, less estimated residual value, on a straight-line basis over their expected useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives. Major asset classifications and their estimated useful lives are:

Buildings	40 years
Plant, pipeline and machinery	2–60 years

Depreciation is not charged on land or assets under construction.

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii. Subsequent expenditure

Subsequent expenditure, for example, the cost of replacing a component of an item of property, plant and equipment, is recognised in the carrying amount of the item if it is probable that the future economic benefits associated with the item will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iv. Borrowing costs

Borrowing costs are capitalised as a cost of an asset if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

(iii) Intangible Assets

i. Software and software under development

Software costs include both internally developed and externally purchased assets.

Internally developed software refers to costs directly associated with the production of identifiable and unique software products which are controlled by the Group. These costs are recognised as intangible assets as it is considered probable that these products will generate economic benefits exceeding the recognised costs. These costs are capitalised only if the criteria set out in IAS 38 are met. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific assets, provided the costs meet the criteria in IAS 38 for capitalising.

ii. Research and development

Research and development expenditure is charged to the income statement as incurred, with the exception of certain development expenditure which is capitalised within intangible assets when the criteria set out in IAS 38 Intangible Assets are met.

1. Statement of Accounting Policies (continued)

iii. Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets. Refer to accounting policy (i) iii for the measurement of goodwill at initial recognition. Thereafter, goodwill is measured at cost after impairment losses. Refer to accounting policy (iv) below for the Group's accounting policy on impairment.

iv. Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. Amortisation is not charged on development assets that are not yet available for use. Software and other intangible assets are amortised, on a straight-line basis, over their estimated useful lives of up to seven years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

v. Borrowing costs

Refer to accounting policy (ii) iv.

(iv) Impairment of Assets

i. Assets that are not subject to amortisation

Intangible assets, with an indefinite useful life or which are not yet ready for use, are tested annually for impairment.

ii. Assets that are subject to depreciation/amortisation

The carrying amounts of these assets are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated.

iii. Recognition of an impairment loss

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

iv. Reversal of an impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss for a CGU shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. The reversal is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the reversal shall be treated as a revaluation increase. Using the asset's revised carrying amount, depreciation/amortisation is provided on a straight-line basis over the estimated remaining useful life.

(v) Foreign Currency

These financial statements are presented in euro, which is both the functional currency of the Parent and the presentational currency of the Group.

i. Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into the functional currency at rates ruling at the reporting date. The resulting foreign currency gain or loss arising on translation is recognised in profit or loss. Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction, and are not subsequently retranslated.

1. Statement of Accounting Policies (continued)

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The results of foreign operations are translated to euro at average exchange rates for the period, when they represent a reasonable approximation of the actual rates incurred. Exchange differences on retranslation of the opening net assets and the results are recognised in other comprehensive income and presented as a separate component of equity (translation reserve).

(vi) Revenue

The Group's revenues are principally derived from gas transportation services, in both regulated and unregulated markets. The Group develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Group also operates and owns the two interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. The Group's revenue also includes operating lease income, which is recognised in accordance with IFRIC 4 (see accounting policy (vii) below).

Revenue is measured based on the consideration which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when or as the performance obligations, as set out in the contract, are satisfied. Transportation capacity revenue (billed and unbilled) is recognised over time as the performance obligation is fulfilled being the provision of network capacity, while any related commodity revenue is recognised based on throughput for the period for each customer. Customer contributions are recognised in deferred revenue when received, and are released to the income statement in accordance with the fulfilment of performance obligations. The performance obligation is distinct to the connection works and revenue is recognised over time as the connection works are completed.

If it is considered that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is considered probable. Where required, revenue and receivables are discounted to reflect a financing element of the transaction and the interest unwind is presented annually as a credit to the income statement.

A number of the Group's sources of revenue are dependent on being approved by the industry regulator, the Commission for Regulation of Utilities (CRU). Certain circumstances may result in the regulatory "allowed" revenue being over or under recovered in the financial year. Any over or under recovery may be included, within certain parameters, in the calculation of the following years' regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

(vii) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The fair value or, if lower, the present value of assets acquired under finance leases are included under property, plant and equipment and written off over the shorter of the lease term or the estimated useful life of the asset. The capital elements of future obligations are included as liabilities. Interest on the remaining lease obligation is charged to the income statement over the period of the lease. This charge is calculated so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives are recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Accounting for arrangements that contain a lease

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to the use and the control of a specific asset. All receipts from these arrangements, within the scope of IFRIC 4, are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership. All other leases are categorised as operating leases.

(viii)Grants

A government grant is recognised as a liability initially on the balance sheet when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses

1. Statement of Accounting Policies (continued)

incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are amortised to the income statement on a systematic basis over the useful life of the asset to match the depreciation charge.

(ix) Provisions and Contingent Liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The associated financing charge is recognised in finance costs. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for. Provision is also made for estimated costs to decontaminate legacy Gas Works sites, obligations for site remediation and costs to be incurred in compliance with environmental regulations and constructive obligations.

Contingent liabilities may arise in respect of contractual agreements to which an entity of the Group is a party. These are estimated (if possible) based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. These are liabilities, over and above those provided for in the financial statements, which could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies they cannot be provided for in the financial statements (in accordance with IFRS).

(x) Retirement Benefit Obligations

The Group operates both defined benefit and defined contribution pension schemes.

i. Defined benefit pension scheme

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme, which is detailed below.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial reviews being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in other comprehensive income.

Past service cost is recognised immediately. The current service cost and gains and losses on settlements and curtailments are charged to operating costs, or to provisions in the instances where the associated costs were provided for initially as part of the recognition of a restructuring provision. The pension net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined liability or asset.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation of the scheme and the fair value of the scheme's assets.

ii. Defined contribution pension scheme

A defined contribution scheme is a post-employment scheme under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The contributions payable under the defined contribution schemes are charged to profit or loss in the periods during which services are rendered by employees.

(xi) Financial Assets and Liabilities

i. Derivative financial instruments

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value at the reporting date.

The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on remeasurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge.

Derivatives not part of effective hedging relationships are treated as if held for trading, with all fair value movements being recorded through profit or loss.

1. Statement of Accounting Policies (continued)

(a) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from other comprehensive income and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in other comprehensive income, is recognised in profit or loss immediately.

(b) Fair value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

ii. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings that are not in a fair value hedging relationship are stated at amortised cost using the effective interest rate method. Borrowings designated at fair value through profit or loss (FVTPL) are measured at fair value for hedged risks, with any gains or losses arising on changes in fair value recognised in profit or loss.

iii. Non-derivative financial assets and liabilities

Trade and other receivables

Trade and other receivables are initially recognised at fair value of the consideration receivable and are subsequently carried at this value less an appropriate allowance for impairment losses. Impairment losses are provided for using a lifetime expected credit loss model, with the expected impairment being recognised as an expense in operating costs. The expected credit loss amount is calculated by applying expected loss rates, based on actual historical cash collection performance, to the aged debt profile with future macro economic factors and factors specific to the debtors taken into consideration.

Policy applicable before 1 January 2018: Specific allowances are made where there is objective evidence of impairment, for example where there is an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less, less overdrafts payable on demand.

Trade and other payables

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount plus any directly attributable transaction costs, and subsequently carried at amortised cost using the effective interest rate method.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified at FVTPL when the financial asset is (i) held for trading, (ii) designated as at FVTPL or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies.

Financial assets at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner determined in note 27.

1. Statement of Accounting Policies (continued)

(xii) Net Finance Costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest payable on borrowings, financing charge on provisions, fair value movements on financial assets classified as fair value through profit or loss and net pension interest costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. The pension net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined liability or asset.

Fair value adjustments on financing instruments that are recognised in profit or loss are presented as finance income or finance costs, as appropriate (refer to note 1 (a) for further detail).

(xiii)Income Tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured, at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying temporary differences can be deducted.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

(xiv)Inventories

i. Inventories

Inventories are measured at the lower of cost and net realisable value, using the first-in, first-out (FIFO) cost formula in line with IAS 2 Inventories. Cost comprises purchase price and all direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal. Specific allowance is made for damaged, deteriorated, obsolete and unusable items where appropriate.

ii. Stock gas

Stocks of gas are held to maintain the pressures required within the Networks system. These stocks are not held for resale and are measured at cost (being the lower of cost and net realisable value).

(xv) Operating Profit

Operating profit is stated before net finance costs and taxation.

(xvi)Non-GAAP Measures

EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Net debt is defined as total borrowings adjusted for impact of fair value hedges less cash deposits. The Group uses these non-GAAP measures to provide useful performance and financing information to management, stockholders and external stakeholders.

1. Statement of Accounting Policies (continued)

(d) Critical Accounting Judgements and Estimates

In the process of applying these accounting policies, the Group is required to make certain estimates, assumptions and judgements that it believes are reasonable based on the information available. These estimates, assumptions and judgements affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates could have a material effect on the financial statements.

On an ongoing basis, the Group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision becomes known.

(i) Critical judgements in applying the Group's accounting policies

The following are the critical judgements apart from those involving estimates (which are dealt with separately below) that the Group has made in the process of applying these accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(a) Classification of costs between operating expenditure and capital expenditure

The classification of expenditure as capital or operating expenditure can require significant judgements, particularly in instances where projects include elements of both enhancement (capital) and maintenance (operating) activities. The Group has appropriate policies, controls and procedures in place to mitigate against the risks of ineligible expenditure being capitalised.

(ii) Estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next year.

(a) Infrastructure assets and the assets we use in our business

As of 31 December 2018, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,538.3 million, which accounted for the majority of the Group's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Group's future financial performance and position.

Depreciation and useful lives

The Group recognises depreciation and amortisation charges annually (2018: €131.1 million) which is primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in these accounting policies (section c). The Group reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Group, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Group that have had a material impact on operating results.

(b) Retirement benefit obligations

The Group's projected benefit cashflows underpinning its defined benefit obligation are discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Significant judgement is also required when deriving the yield curve at longer terms as the number of long dated high quality corporate bonds is sparse at longer durations. During 2018, the Group, on the advice of the Group's actuary to the Scheme, has refined its methodology to derive the yield curve and has adopted an alternative extrapolation method. Under this alternative method, high quality corporate bond yields are extrapolated at longer durations when corporate bonds become sparse, by maintaining the yield differential between the corporate bond curve and a composite AA rated Euro government bond curve rather than by reference to a swaps curve which was the approach used previously.

1. Statement of Accounting Policies (continued)

The Ervia defined benefit obligation as at 31 December 2018 was calculated using a discount rate of 2.1% as derived using the revised methodology described above. The discount rate under the previous extrapolation method would have been 1.85%. The Company recognised an actuarial gain of €42m during 2018 due to the change in the discount rate from 1.75% as at 31 December 2017 to 2.1% at 31 December 2018. Circa €28m of this gain was due to a refinement of how the yield curve is extrapolated at longer terms as described above and €14m was due to market movements in the yields on high quality corporate bonds during the year.

(c) Provision for other liabilities and charges

The assessments of the financial outcome of uncertain commercial and legal positions involves estimation uncertainty and requires the use of judgement, estimation and assumptions. The amounts recognised as a provision are the Group's best estimate of the expenditure required to settle present obligations at the reporting date. In assessing the likely outcome, the Group bases its assessment on available facts, historical experience, advice from legal advisors and other experts and additional relevant factors that are believed to be reasonable in the circumstances. A revised estimate is established at each reporting date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. The required provision may change in the future due to new developments and as additional information becomes available. Refer to note 24 for further detail.

(d) Taxation

The Group is subject to income taxes in different jurisdictions. Provisions for tax liabilities require the Group to make estimates in relation to tax calculations. Amounts provided are based on the Group's interpretation of country specific tax laws and represent the Group's best estimate of the amounts of income taxes payable in future periods. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. The Group estimates the most probable amount of future taxable profits, using assumptions consistent with those employed in preparing the financial statements, and taking into account applicable tax legislation in the relevant jurisdiction. These calculations require the use of estimates. Refer to note 10.

2. Divisional Information

During 2015, the Parent transferred all debt to its newly incorporated subsidiary company, Gas Networks Ireland. Consequently, the Group is no longer within the scope of IFRS 8 Operating Segments, however has chosen to present the following divisional information.

DIVISION	GEOGRAPHICAL LOCATION	DESCRIPTION OF PRODUCTS AND SERVICES
Gas Networks Ireland	Ireland and UK	The Gas Networks Ireland business develops, operates and maintains the natural gas transmission and distribution networks in Ireland and provides gas transportation services to suppliers and shippers. The Gas Networks Ireland business division also operates and owns the two Interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland and the Isle of Man. Revenues are principally derived from gas transportation services. The Aurora Telecom business, which provides high quality dark fibre broadband infrastructure, is also included within this division.
Ervia Parent	Ireland	The operations of Ervia Parent includes areas not falling within the Gas Networks Ireland business division, including; ▸ Business Services, providing transactional support services in the areas of Finance, Accounts Payable, Procurement, Payroll, Human Resources, Facilities and IT support to the Group, ▸ Group Centre consisting of the Group Chief Executive Officer's office, Group Finance, Group HR, Legal, Strategy and Commercial Regulation, and ▸ Major Projects, a centre of excellence for the delivery of key strategic gas and water infrastructure projects. Costs in respect of Ervia Parent are recharged to the Gas Networks Ireland and Irish Water business divisions. The operating costs of this division set out below are net of these recharges and primarily represent non cash pension costs.

In accordance with IFRS 10, the financial statements of Irish Water are not consolidated with the results of the Group (as further explained in note 29). Consequently, Irish Water is not included in this note.

a) Revenue

Revenue split by geographic location is as follows:

	2018 €'000	2017 €'000
Ireland	**450,693**	434,253
UK (including Northern Ireland and Isle of Man)	**36,490**	38,922
Total	**487,183**	473,175

Included in the Group's revenue of €487.2 million for 2018 (2017: €473.2 million) are revenues of €129.4 million (2017: €142.4 million), €61.4 million (2017: €57.5 million) and €47.7 million (2017: €47.9 million) which arose from sales to the Group's three largest customers.

(b) Capital expenditure

	CAPITAL ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT (NOTE 11)		CAPITAL ADDITIONS TO INTANGIBLE ASSETS (NOTE 12)	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Gas Networks Ireland	**134,733**	143,682	**8,211**	3,478
Ervia Parent	**232**	–	**–**	–
Total	**134,965**	143,682	**8,211**	3,478

2. Divisional Information (continued)

(c) Non-current assets by geographic location

	31-DEC-18 €'000	31-DEC-17 €'000
Ireland	2,166,981	2,183,351
UK (including Northern Ireland and Isle of Man)	371,289	349,714
Total	**2,538,270**	2,533,065

Non-current assets for this purpose consists of property, plant and equipment, intangible assets and trade and other receivables. Derivative financial instruments are excluded.

The amounts presented in the tables below are before exceptional items.

			A			B	A + B = C
	GAS NETWORKS IRELAND (STATUTORY RESULTS) 2018 €'000 NOTE 1	CONSOLIDATION AND ELIMINATIONS 2018 €'000	GAS NETWORKS IRELAND (SEGMENT RESULTS) 2018 €'000	ERVIA PARENT (STATUTORY RESULTS) 2018 €'000	CONSOLIDATION AND ELIMINATIONS 2018 €'000 NOTE 2	ERVIA PARENT (SEGMENT RESULTS) 2018 €'000	ERVIA GROUP (STATUTORY RESULTS) 2018 €'000
Revenue	487,183	–	487,183	–	–	–	487,183
Operating costs (excluding depreciation and amortisation)	(186,311)	–	(186,311)	(6,094)	(65)	(6,159)	(192,470)
Operating profit/(loss) before depreciation and amortisation (EBITDA)	300,872	–	300,872	(6,094)	(65)	(6,159)	294,713
Depreciation and amortisation	(136,506)	5,825	(130,681)	(386)	–	(386)	(131,067)
Operating profit/(loss)	164,366	5,825	170,191	(6,480)	(65)	(6,545)	163,646
Finance income	–	–	–	54,189	(54,189)	–	–
Finance costs	(21,317)	–	(21,317)	(2,647)	–	(2,647)	(23,964)
Net finance (costs)/income	(21,317)	–	(21,317)	51,542	(54,189)	(2,647)	(23,964)
Profit/(loss) before income tax	143,049	5,825	148,874	45,062	(54,254)	(9,192)	139,682

			A			B	A + B = C
	GAS NETWORKS IRELAND (STATUTORY RESULTS) 31-DEC-18 €'000	CONSOLIDATION AND ELIMINATIONS 31-DEC-18 €'000 NOTE 1	GAS NETWORKS IRELAND (SEGMENT RESULTS) 31-DEC-18 €'000	ERVIA PARENT (STATUTORY RESULTS) 31-DEC-18 €'000	CONSOLIDATION AND ELIMINATIONS 31-DEC-18 €'000 NOTE 3	ERVIA PARENT (SEGMENT RESULTS) 31-DEC-18 €'000	ERVIA GROUP (STATUTORY RESULTS) 31-DEC-18 €'000
Infrastructure assets	2,596,330	(66,060)	2,530,270	8,000	–	8,000	2,538,270
Other assets	236,163	–	236,163	891,245	(844,335)	46,910	283,073
Total assets	2,832,493	(66,060)	2,766,433	899,245	(844,335)	54,910	2,821,343
Borrowings	(1,191,826)	–	(1,191,826)	–	–	–	(1,191,826)
Retirement benefit obligations	–	–	–	(98,381)	–	(98,381)	(98,381)
Other liabilities	(634,539)	10,488	(624,051)	(29,506)	162,899	133,393	(490,658)
Total liabilities	(1,826,365)	10,488	(1,815,877)	(127,887)	162,899	35,012	(1,780,865)
Net assets	1,006,128	(55,572)	950,556	771,358	(681,436)	89,922	1,040,478
Net debt	(1,051,069)	–	(1,051,069)	15,236	–	15,236	(1,035,833)

2. Divisional Information (continued)

Note 1:

Certain assets were previously subject to intra-group disposals to entities within the Gas Networks Ireland Group at market value for consideration in excess of the net book value at the date of sale. From an Ervia Group perspective the unrealised intra-group gains were eliminated on consolidation when the related assets were sold to entities within the Gas Networks Ireland Group and subsequently the depreciation uplift recognised in the Gas Networks Ireland Group financial statements are also eliminated on consolidation (2018:€5.8 million). The carrying value of the relevant assets included in the Gas Networks Ireland Group financial statements, that are subject to elimination on consolidation was €66.1 million as at 31 December 2018. The deferred tax liability on these assets, subject to elimination on consolidation, was €10.5 million as at 31 December 2018.

Note 2:

The intra-group dividend declared from Gas Networks Ireland to Ervia Parent of €54.2 million for the year ended 31 December 2018 is eliminated at an Ervia Group level.

Note 3:

The following Ervia Parent assets are either eliminated or reclassified (offset) on consolidation:

- The Ervia Parent investment in Gas Networks Ireland of €681.4 million is eliminated against the Gas Networks Ireland net assets (equity). Refer to Parent note 17.
- The Ervia Parent intercompany receivable from Gas Networks Ireland Group of €160.0 million is eliminated against the corresponding liability in Gas Networks Ireland Group. Refer to Parent note 9.
- The Ervia Parent deferred tax asset of €2.9 million is offset against deferred tax liabilities recognised in the Gas Networks Ireland Group.

3. Revenue

		2018 €'000	2017 €'000
Regulated		**423,527**	415,591
Unregulated – transportation contracts	28	**29,309**	30,744
Unregulated – new connections contracts	22	**9,902**	4,428
Unregulated – other		**24,445**	22,412
Total		**487,183**	473,175

4. Operating Costs (excluding depreciation and amortisation)

	2018 €'000	2017 €'000
Employee benefit expense	**(86,081)**	(78,546)
Hired and contracted services	**(13,705)**	(14,021)
Materials, maintenance and sub-contractor costs	**(55,541)**	(51,626)
Rent, rates and facilities	**(30,840)**	(28,616)
Other operating expenses	**(50,347)**	(43,573)
Recharges to non-controlled undertakings (note 30)	**44,044**	43,073
Total	**(192,470)**	(173,309)

Operating costs are stated after charging:

	2018 €'000	2017 €'000
(a) Auditor's remuneration		
– statutory audit services	**(169)**	(154)
– other audit related assurance services	**(70)**	(62)
– tax advisory services	**–**	(6)
– other non-audit services	**–**	–
Total	**(239)**	(222)
(b) Board members' emoluments		
– fees	**(157)**	(157)
– remuneration of the Group Chief Executive Officer*	**(302)**	(219)
Total	**(459)**	(376)

* Remuneration details for 2017 relate to both the current and former Group Chief Executive Officer. The former Group Chief Executive Officer resigned on 1 June 2017 and the current Group Chief Executive Officer was appointed effective from 31 October 2017.

Details of the all-in cost of the remuneration package of the current and former Group Chief Executive Officer are as follows:

	2018 €'000	2017 €'000
(b) (i) Current Group Chief Executive Officer		
Group Chief Executive Officer's basic salary	**(225)**	(38)
Other short-term employee benefits	**(21)**	(5)
Post-employment benefits – pension contributions	**(56)**	(9)
Total	**(302)**	(52)
(b) (ii) Former Group Chief Executive Officer		
Group Chief Executive Officer's basic salary	**–**	(125)
Other short-term employee benefits	**–**	(11)
Post-employment benefits – pension contributions	**–**	(31)
Total	**–**	(167)

5. Employee Benefits

(a) Aggregate employee benefits

	2018 €'000	2017 €'000
Staff short-term benefits	**(75,272)**	(69,591)
Post-employment benefits – pension contributions	**(17,913)**	(15,628)
Employer's contribution to social welfare	**(8,120)**	(7,538)
	(101,305)	(92,757)
Capitalised payroll and other payroll transfers	**15,224**	14,211
Employee benefit expense charged to profit or loss	**(86,081)**	(78,546)

(b) Staff short-term benefits

	2018 €'000	2017 €'000
Wages and salaries	**(71,150)**	(65,779)
Overtime	**(1,163)**	(1,170)
Allowances	**(892)**	(899)
Other	**(2,067)**	(1,743)
Total	**(75,272)**	(69,591)

The average number of employees employed by the Group was 981 for 2018 (2017: 927). Refer to note 24 for details of termination benefits charged against the restructuring provision.

6. Key Management Compensation

	2018 €'000	2017 €'000
Short-term employee benefits	**(1,477)**	(1,397)
Post-employment benefits	**(182)**	(361)
Total	**(1,659)**	(1,758)

Key management consists of the Ervia Board, the Ervia CEO and his direct reports. Key management costs are apportioned to individual entities within the Ervia group based on services provided. The costs disclosed are net of an apportionment of costs to Irish Water, being a non-controlled undertaking.

7. Exceptional Items

Refer to note 9 for detail in respect of exceptional costs incurred in 2018 and 2017.

8. Depreciation and Amortisation

	2018 €'000	2017 €'000
Depreciation	**(131,353)**	(126,276)
Amortisation of intangible assets	**(5,424)**	(12,632)
Grant amortisation	**5,710**	5,659
Total	**(131,067)**	(133,249)

9. Net Finance Costs

		2018 €'000	2017 €'000
Before exceptional items			
Finance costs			
Interest		**(19,399)**	(20,394)
Interest capitalised		**1,122**	749
Financing charge		**(67)**	(93)
Net interest on the net defined benefit liability	21	**(2,125)**	(2,204)
Other finance costs		**(3,495)**	(3,355)
Total finance costs		**(23,964)**	(25,297)
Exceptional items			
Net changes in fair value of financing undesignated derivatives	(i)	**1,397**	2,843
Net changes in fair value of financial instruments designated as fair value hedges	(i)	**(79)**	234
Change in estimate of cash flow on contingent consideration	(ii)	**–**	4,253
Total exceptional items		**1,318**	7,330
Total			
Finance income		**1,397**	7,330
Finance costs		**(24,043)**	(25,297)
Net finance costs		**(22,646)**	(17,967)

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. Further details on derivative financial instruments falling within the scope of IFRS 9 are set out in accounting policy xi.

(ii) The Group recognised a non-cash remeasurement gain of €4.3 million during 2017 due to changes in the expected future cash flows relating to contingent consideration previously recognised.

10. Tax

	2018 €'000	2017 €'000
Current tax expense		
Current tax	**(24,642)**	(22,635)
Adjustments in respect of previous years	**2,241**	776
	(22,401)	(21,859)
Deferred tax credit		
Origination and reversal of temporary differences	**3,483**	647
Adjustments in respect of previous years	**(32)**	(73)
	3,451	574
Total income tax expense	**(18,950)**	(21,285)

	2018 €'000	2017 €'000
Reconciliation of effective tax rate		
Profit before tax	**141,000**	148,650
Taxed at 12.5% (2017: 12.5%)	**(17,625)**	(18,581)
Expenses not deductible for tax purposes	**(1,968)**	(1,630)
Income not taxable	**490**	1,022
Profits taxed at higher rates	**(1,712)**	(2,046)
Effect of tax rate change	**(376)**	(963)
Exchange adjustments	**33**	210
Adjustments to tax charge in respect of previous years	**2,208**	703
Total income tax expense	**(18,950)**	(21,285)

Refer to the Group statement of other comprehensive income for details of the tax impacts therein.

	31-DEC-18 €'000	1831-DEC-17 €'000
Current tax assets and liabilities		
Current tax liabilities	**(2,502)**	(4,191)

Deferred tax assets and liabilities

	RETIREMENT BENEFIT OBLIGATION €'000	DERIVATIVE FINANCIAL INSTRUMENTS €'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS €'000	INTEREST €'000	OTHER €'000	TOTAL €'000
At 1 January 2017	16,161	73	(208,509)	(2,643)	370	(194,548)
Recognised in income statement	1,071	–	(260)	(49)	(188)	574
Recognised in equity	(1,253)	239	–	–	–	(1,014)
Exchange adjustments	–	–	608	(289)	–	319
At 31 December 2017	15,979	312	(208,161)	(2,981)	182	(194,669)
Recognised in income statement	**1,212**	**–**	**987**	**1,330**	**(78)**	**3,451**
Recognised in equity	**(4,893)**	**(115)**	**–**	**–**	**–**	**(5,008)**
Exchange adjustments	**–**	**–**	**172**	**(76)**	**–**	**96**
At 31 December 2018	**12,298**	**197**	**(207,002)**	**(1,727)**	**104**	**(196,130)**

The following deferred tax assets have not been recognised in the balance sheet as it is not probable that they will be recovered for the foreseeable future. There is no expiry date as to when tax losses can be utilised.

	2018 €'000	2017 €'000
Capital losses	**3,600**	3,600
Losses forward	**–**	42

11. Property, Plant and Equipment

	LAND AND BUILDINGS €'000	PLANT, PIPELINE AND MACHINERY €'000	ASSETS UNDER CONSTRUCTION €'000	TOTAL €'000
Cost				
At 1 January 2017	88,869	4,029,398	63,177	4,181,444
Additions	–	8,701	134,981	143,682
Transfers in year	442	86,328	(86,770)	–
Disposals	–	(5,004)	–	(5,004)
Effect of movement in exchange rates	–	(8,960)	(50)	(9,010)
At 31 December 2017	89,311	4,110,463	111,338	4,311,112
Additions	**–**	**10,378**	**124,587**	**134,965**
Transfers in year	**28**	**203,893**	**(203,921)**	**–**
Disposals	**–**	**(6,242)**	**–**	**(6,242)**
Effect of movement in exchange rates	**–**	**(2,174)**	**(241)**	**(2,415)**
At 31 December 2018	**89,339**	**4,316,318**	**31,763**	**4,437,420**
Accumulated depreciation and impairment losses				
At 1 January 2017	(34,024)	(1,645,540)	–	(1,679,564)
Depreciation for the year	(1,831)	(124,445)	–	(126,276)
Disposals	–	4,959	–	4,959
Effect of movement in exchange rates	–	3,998	–	3,998
At 31 December 2017	(35,855)	(1,761,028)	–	(1,796,883)
Depreciation for the year	**(1,841)**	**(129,512)**	**–**	**(131,353)**
Disposals	**–**	**6,215**	**–**	**6,215**
Effect of movement in exchange rates	**–**	**1,257**	**–**	**1,257**
At 31 December 2018	**(37,696)**	**(1,883,068)**	**–**	**(1,920,764)**
Carrying amounts				
At 31 December 2017	53,456	2,349,435	111,338	2,514,229
At 31 December 2018	**51,643**	**2,433,250**	**31,763**	**2,516,656**

During the year, the Group capitalised €1.1 million (2017: €0.7 million) in interest. The capitalisation rate was 2.0% (2017: 2.2%). The Group also capitalised €7.8 million in payroll costs during the year (2017: €9.3 million).

Gas Networks Ireland (IOM) DAC a subsidiary within the Group, entered into a project financing arrangement in 2003. The balance outstanding of €5.2 million at 31 December 2018 (2017: €7.8 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) DAC (note 18).

	2018 €'MILLION	2017 €'MILLION
Capital commitments		
Contracted for	**40**	44

12. Intangible Assets

	SOFTWARE AND OTHER €'000	SOFTWARE UNDER DEVELOPMENT €'000	TOTAL €'000
Cost			
At 1 January 2017	128,627	8,035	136,662
Additions (incl internally developed)	–	3,478	3,478
Transfers in year	5,450	(5,450)	–
Effect of movement in exchange rates	(25)	(37)	(62)
At 31 December 2017	134,052	6,026	140,078
Additions (incl internally developed)	**4**	**8,207**	**8,211**
Transfers in year	**7,087**	**(7,087)**	**–**
Effect of movement in exchange rates	**(24)**	**4**	**(20)**
At 31 December 2018	**141,119**	**7,150**	**148,269**
Amortisation and impairment losses			
At 1 January 2017	(108,632)	–	(108,632)
Amortisation for the year	(12,632)	–	(12,632)
Effect of movement in exchange rates	22	–	22
At 31 December 2017	(121,242)	–	(121,242)
Amortisation for the year	**(5,424)**	**–**	**(5,424)**
Effect of movement in exchange rates	**11**	**–**	**11**
At 31 December 2018	**(126,655)**	**–**	**(126,655)**
Carrying amounts			
At 31 December 2017	12,810	6,026	18,836
At 31 December 2018	**14,464**	**7,150**	**21,614**

During the year, the Group capitalised the sum of €1.4 million in payroll costs during the year (2017: €1.6 million).

13. Inventory

	31-DEC-18 €'000	31-DEC-17 €'000
Gas stock and engineering materials	**1,675**	1,059

In 2018 inventories recognised in the income statement amounted to €1.1 million (2017: €1.1 million). There were no write-downs of inventories to net realisable value in 2018 (2017: €nil).

14. Trade and Other Receivables

	31-DEC-18 €'000	31-DEC-17 €'000
Trade receivables	**9,486**	45,332
Trade receivables – unbilled	**40,856**	43,555
Prepayments	**7,731**	6,637
Amounts due from non-controlled undertakings	**28,000**	26,774
Grant receivable	**7,099**	–
Other receivables	**4,286**	26,011
Total	**97,458**	148,309

Analysed as follows:

Non-current	**–**	–
Current	**97,458**	148,309
Total	**97,458**	148,309

Trade receivables are stated net of allowances for impairment. Trade receivables mainly represent receivables in respect of use of system revenue in Ireland and charges for use of the Northwest transmission pipeline and the South North pipeline in Northern Ireland. Refer to note 30 for further detail in respect of balances with related parties.

Credit risk

Use of system revenue in Ireland comprises Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. The credit terms for both DUoS and TUoS are ten business days and there are currently twenty eight external shippers. TUoS and DUoS revenue is billed and collected by the Group. The allowed revenue is invoiced to the shippers on a monthly basis twelve business days after month end with payment due ten business days from date of invoice. In respect of the Networks business in Northern Ireland, revenue is derived principally from charges for use of the Northwest transmission pipeline and the South north pipeline. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Payments in relation to new connections or alterations are paid for in advance of the work being carried out. Credit risk on all other receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Prepayments, amounts due from non-controlled undertakings and grant receivable are excluded from the analysis of credit exposure below. The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Trade receivables	**9,486**	45,332
Trade receivables – unbilled	**40,856**	43,555
Other receivables	**4,286**	26,011
Total	**54,628**	114,898

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Ireland	**47,309**	106,624
UK (including Northern Ireland and Isle of Man)	**7,319**	8,274
Total	**54,628**	114,898

The ageing of trade and other receivables, net of impairment, is as follows:

	NET RECEIVABLE 31-DEC-18 €'000	NET RECEIVABLE 31-DEC-17 €'000
Not past due	**53,899**	113,034
0–30 days	**166**	1,263
31–120 days	**375**	479
> 120 days	**188**	122
Total	**54,628**	114,898

14. Trade and Other Receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 €'000	2017 €'000
At 1 January	**(461)**	(315)
Impairment loss recognised	**(33)**	(188)
Provision utilised	**30**	42
At 31 December	**(464)**	(461)

15. Cash and Cash Equivalents

Cash and cash equivalents are held for the purpose of meeting liquidity requirements.

	31-DEC-18 €'000	31-DEC-17 €'000
Cash and cash equivalents	**131,826**	76,226
Total	**131,826**	76,226

	2018 €'000	2017 €'000
At 1 January	**76,226**	87,915
Increase/(decrease) in cash and cash equivalents in the statement of cash flows	**55,589**	(11,562)
Effect of exchange rate fluctuations on cash held	**11**	(127)
At 31 December	**131,826**	76,226

16. Restricted Deposits

Restricted deposits include amounts held in respect of credit support agreements and gas network related security deposits.

	31-DEC-18 €'000	31-DEC-17 €'000
Current	**26,700**	32,594
Total	**26,700**	32,594

17. Cash Generated from Operations

	NOTES	2018 €'000	2017 €'000
Cash flows from operating activities			
Profit for the year		**122,050**	127,365
Adjustments for:			
Depreciation and amortisation	8	**131,067**	133,249
Net finance costs	9	**22,646**	17,967
Retirement benefit cost		**7,660**	6,424
Income tax expense	10	**18,950**	21,285
		302,373	306,290
Working capital changes:			
Change in inventories		**(616)**	1,347
Change in trade and other receivables		**39,344**	(31,616)
Change in trade and other payables		**11,880**	(5,974)
Change in deferred revenue		**(2,645)**	2,069
Change in provisions		**100**	(4,395)
Cash from operating activities		**350,436**	267,721
Interest paid		**(22,006)**	(25,249)
Income tax paid		**(26,623)**	(18,199)
Net cash from operating activities		**301,807**	224,273

18. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note 26 for more information about the Group's exposure to interest rate, exchange rate and liquidity risk.

Maturity of borrowings and other debt by type (including associated fees)

	BONDS 31-DEC-18 €'000	LOANS FROM FINANCIAL INSTITUTIONS[1] 31-DEC-18 €'000	TOTAL 31-DEC-18 €'000	BONDS 31-DEC-17 €'000	LOANS FROM FINANCIAL INSTITUTIONS[1] 31-DEC-17 €'000	TOTAL 31-DEC-17 €'000
Less than one year	**–**	**(446,699)**	**(446,699)**	–	(101,288)	(101,288)
Current	**–**	**(446,699)**	**(446,699)**	–	(101,288)	(101,288)
Between one and five years	**–**	**(124,139)**	**(124,139)**	–	(463,747)	(463,747)
More than five years	**(620,988)**	**–**	**(620,988)**	(620,466)	–	(620,466)
Non-current	**(620,988)**	**(124,139)**	**(745,127)**	(620,466)	(463,747)	(1,084,213)
Total	**(620,988)**	**(570,838)**	**(1,191,826)**	(620,466)	(565,035)	(1,185,501)

1 including private placement notes.

Total borrowings include €453.1 million (2017: €444.5 million) of floating rate debt, €5.2 million (2017: €7.8 million) of inflation linked debt and €733.5 million (2017: €733.2 million) of fixed rate debt which have been drawn down from various lenders. The inflation linked debt is secured over the assets of Gas Networks Ireland (IOM) Limited, which primarily comprises a gas transmission pipeline to the Isle of Man. The revenues from this pipeline are indexed to the U.K. Retail Price Index (UK RPI). Accordingly, to mitigate the risk of low inflation, this debt is also linked to the UK RPI using an index-linked hedge.

Included in borrowings are sterling denominated bank loans, which have been used as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom. The carrying amount of the loans at 31 December 2018 was €111.3 million (2017: €112.5 million).

Certain borrowings are held with related parties, refer to note 30 for full details of related party disclosures.

19. Analysis of Net Debt

Net debt comprises borrowings, net of fair value hedges recognised within borrowings and net of cash and cash equivalents.

		31-DEC-18 €'000	31-DEC-17 €'000
Total borrowings	18	**(1,191,826)**	(1,185,501)
Less fair value hedges recognised within borrowings	26	**24,167**	15,578
Less cash and cash equivalents	15	**131,826**	76,226
Net debt		**(1,035,833)**	(1,093,697)

		2018 €'000	2017 €'000
Net debt reconciliation			
At 1 January		**(1,093,697)**	(1,027,997)
Cash from operations	17	**350,436**	267,721
Interest paid	17	**(22,006)**	(25,249)
Tax paid	17	**(26,623)**	(18,199)
Net capital expenditure		**(117,840)**	(130,251)
Dividends paid	20	**(139,089)**	(148,440)
Other cash items		**13,298**	(14,245)
Non-cash items		**(312)**	2,963
At 31 December		**(1,035,833)**	(1,093,697)

20. Dividends

Dividend declared

	2018 €'000	2017 €'000
To the Exchequer	**144,189**	148,440
Total	**144,189**	148,440

Dividend paid

	2018 €'000	2017 €'000
Annual dividend paid to the Exchequer	**49,089**	48,440
Special dividend on sale of the Energy business paid to the Exchequer	**90,000**	100,000
Total	**139,089**	148,440

A dividend of €139.1 million (2017: €148.4 million) was paid to the Exchequer during the year following agreement with the Department of Housing, Planning and Local Government to withhold €5.1 million, which is due to be paid in 2023. Annual dividends are based on 45% (2017: 45%) of the previous year's profit before certain exceptional items, as directed by the shareholder. The 2018 dividend paid includes payment of a further special dividend of €90.0 million (2017: €100.0 million) following the sale of the Energy business in 2014.

21. Retirement Benefit Obligations

The Group operates a defined benefit scheme and a defined contribution scheme.

Defined benefit scheme

The Group operates one externally funded defined benefit pension scheme in Ireland. The level of benefits provided depends on members' length of service and their pensionable salary when they leave the scheme, i.e. a 'final salary' scheme. Increases are generally provided to pensions in payment on a discretionary basis.

The defined benefit scheme is administered by a Board of Trustees which comprises member and employer representatives. The Board of Trustees is responsible for the management and governance of the scheme including compliance with all relevant laws and regulations. The assets of the scheme are held separately from those of the Group in trustee administered funds. The scheme is subject to independent actuarial valuations at least every three years. The latest valuation of the defined benefit scheme was carried out as at 1 April 2017 by a qualified actuary. The next actuarial valuation is due with an effective date of 1 April 2020.

The scheme exposes the Group to a number of risks, the most significant of which are as follows:

Asset volatility risk

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this could create a larger deficit. The scheme holds a significant proportion of growth assets (equities and diversified alternatives) which, though expected to outperform corporate bonds in the long-term, create additional volatility and risk in the short-term.

Changes in bond yields risk

A decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes, although this will be partially offset by an increase in the value of any bond holdings.

Salary risk

As a final salary scheme there is an exposure to higher benefits arising as a result of higher salary increases than allowed for in the assumptions. The assumptions used to project final salary incorporate an age-related component in addition to a flat basic rate as an allowance for the effect of increments and promotions.

Inflation risk

The scheme's defined benefit obligations are linked to inflation (for active members, benefits are linked to salary increases while for deferred members, preserved benefits are linked on a discretionary basis to post retirement pension increases awarded). Higher than assumed inflation will lead to higher liabilities. About a quarter of the fund is invested in inflation-linked bonds as a match to such real liabilities.

Life expectancy risk

The majority of the scheme's obligations are to provide benefits for the life of the member (and their dependants), so increases in life expectancy will result in an increase in the liabilities.

21. Retirement Benefit Obligations (continued)

Analysis of plan assets and the net pension liability recognised on the balance sheet

	2018 €'000	%	2017 €'000	%
Investments quoted in active markets:				
Equities	**168,679**	**40.4%**	194,248	45.3%
– developed markets	**150,951**		174,570	
– emerging markets	**17,728**		19,678	
Bonds	**209,085**	**50.2%**	198,608	46.2%
– Government debt	**183,623**		181,148	
– Non-government debt	**25,462**		17,460	
Investment funds	**29,618**	**7.1%**	26,303	6.1%
Cash	**972**	**0.2%**	3,549	0.8%
Unquoted investments:				
Property/forestry	**3,815**	**0.9%**	3,883	0.9%
Private equity/venture capital	**4,576**	**1.1%**	2,980	0.7%
Total fair value of plan assets at 31 December	**416,745**	**100.0%**	429,571	100.0%
Defined benefit obligation	**(515,126)**		(557,399)	
Net pension liability at 31 December	**(98,381)**		(127,828)	

Investment strategy

The Group and Trustees have agreed an initial investment strategy that is growth orientated (59% growth / 41% liability matching).

Analysis of the amounts recognised in the income statement in respect of the defined benefit pension scheme

	2018 €'000	2017 €'000
Current service cost	**(14,024)**	(13,060)
Net interest on the net defined benefit liability	**(2,125)**	(2,204)
Past service cost	**(1,388)**	(590)
Administrative expenses	**–**	–
Total pension cost recognised in the income statement	**(17,537)**	(15,854)

Analysis of amount charged to provisions

	2018 €'000	2017 €'000
Current service cost	**(397)**	(581)
Past service cost	**–**	(800)
Amount charged to provisions	**(397)**	(1,381)

Recharges to non-controlled undertaking

	2018 €'000	2017 €'000
Current service cost	**(1,034)**	(1,148)
Past service cost	**–**	(473)
Total recharges to non-controlled undertaking	**(1,034)**	(1,621)

Remeasurements recognised in other comprehensive income

	2018 €'000	2017 €'000
Return on plan assets excluding interest income	**(21,211)**	18,043
Experience gains on liabilities	**(3,737)**	4,152
Effect of changes in financial assumptions	**64,095**	(12,172)
Total pension gain recognised in other comprehensive income	**39,147**	10,023

21. Retirement Benefit Obligations (continued)

Movement in the fair value of plan assets

	2018 €'000	2017 €'000
Opening fair value of plan assets	**429,571**	403,343
Interest income on plan assets	**7,525**	7,268
Return on plan assets (excluding interest income) – gains/(losses)	**(21,211)**	18,043
Contributions by employers	**9,268**	10,290
Contributions by members	**3,487**	3,488
Benefits paid	**(11,895)**	(12,861)
Closing fair value of plan assets	**416,745**	429,571

Movement in the present value of the defined benefit obligation

	2018 €'000	2017 €'000
Opening defined benefit obligation	**(557,399)**	(532,628)
Current service cost	**(15,455)**	(14,789)
Past service cost	**(1,388)**	(1,863)
Interest cost	**(9,650)**	(9,472)
Contributions by members	**(3,487)**	(3,488)
Benefits paid	**11,895**	12,861
Actuarial gains/(losses)	**60,358**	(8,020)
Closing defined benefit obligation	**(515,126)**	(557,399)

The weighted average duration of the defined benefit obligation at 31 December 2018 was approximately 21 years (2017: 21 years). The Group expects to contribute €8.4 million to its pension plan in 2019.

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	**2.10%**	1.75%
Inflation assumption	**1.50%**	1.70%
Rate of increase in salaries*	**2.00%**	2.20%
Rate of increase in pensions payment	**1.50%**	1.70%

*Plus salary scale to allow for promotional increases

The average future life expectancy factored into the valuation, based on retirement at 65 years of age, for current and future retirees is as follows:

	2018	2017
Retiring today		
Males	**22.3**	22.2
Females	**24.8**	24.7
Retiring in 25 years		
Males	**25.3**	25.2
Females	**27.4**	27.3

21. Retirement Benefit Obligations (continued)

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial and demographic assumptions adopted in calculating the actuarial value of the Group's defined benefit obligation. The following table analyses the estimated impact on scheme liabilities resulting from changes to key actuarial assumptions.

ASSUMPTION	CHANGE IN ASSUMPTION	IMPACT ON SCHEME LIABILITIES
Discount rate	Increase/decrease by 0.25%	Decrease by €25.7m/increase by €27.8m
Price inflation	Increase/decrease by 0.25%	Increase by €27.7m/decrease by €26.0m
Salary	Increase/decrease by 0.25%	Increase by €10.7m/decrease by €10.3m
Mortality	Increase/decrease by one year	Increase by €14.2m/decrease by €14.5m

Defined contribution scheme

During the year ended 31 December 2018, Ervia contributed €2.5 million, in respect of the Ervia Defined Contribution Scheme (2017: €1.9 million), on behalf of its employees, which was charged to the income statement.

22. Deferred Revenue

	2018 €'000	2017 €'000
At 1 January	**(20,752)**	(18,310)
Received in year	**(3,594)**	(6,610)
Credited to the income statement	**6,239**	4,168
At 31 December	**(18,107)**	(20,752)

Analysed as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Non-current	**(9,716)**	(12,801)
Current	**(8,391)**	(7,951)
Total	**(18,107)**	(20,752)

Customer connection contributions which are received in advance of customer connections are recorded initially as deferred revenue. Contributions are then released to the income statement as revenue as the connection works (performance obligation) are completed.

23. Government Grants

	2018 €'000	2017 €'000
At 1 January	**(77,705)**	(71,394)
Receivable in year	**(16,600)**	(13,274)
Amortised in year	**5,710**	5,659
Credited to the income statement	**376**	373
Effect of movement in exchange rates	**207**	931
At 31 December	**(88,012)**	(77,705)

Analysed as follows:

	31–DEC–18 €'000	31–DEC–17 €'000
Non-current	**(81,554)**	(72,073)
Current	**(6,458)**	(5,632)
Total	**(88,012)**	(77,705)

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to.

Grants receivable for 2018 of €16.6 million (2017: €13.3 million) primarily relate to grant funding from the Innovation and Networks Executive Agency (INEA) for the twinning infrastructure project. A number of conditions relating to this grant funding remain in progress at year end.

24. Provisions

Provisions

	RESTRUCTURING €'000	ENVIRONMENTAL €'000	SELF-INSURED CLAIMS €'000	TOTAL €'000
At 1 January 2018	**(214)**	**(5,884)**	**(6,694)**	**(12,792)**
Financing charge	**(2)**	**(65)**	**–**	**(67)**
Provisions made in the year	**(266)**	**(415)**	**(855)**	**(1,536)**
Provisions used in the year	**164**	**563**	**709**	**1,436**
At 31 December 2018	**(318)**	**(5,801)**	**(6,840)**	**(12,959)**

Analysed as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Non-current	**(7,201)**	(7,116)
Current	**(5,758)**	(5,676)
Total	**(12,959)**	(12,792)

Restructuring

During 2013, the Ervia Group announced a voluntary severance and early retirement programme for employees that satisfied certain qualifying criteria. The Group made termination payments and related pension payments of €0.164 million in aggregate during 2018 in respect of four employees who exited under the terms of the programme.

Environmental

The year-end provision includes an appropriate estimate of the cost of decontamination of legacy Gas Works sites, obligations for site remediation and costs to be incurred in compliance with environmental regulations and constructive obligations. These liabilities are expected to be substantially discharged by 2020.

Self-insured claims

The Group is self-insured in respect of certain injury and damage claims. The year-end provision is for the estimated costs of incidents that have occurred up to 31 December 2018. Payments are made as the cases are settled. The charge is included in the income statement under operating costs. The nature of these claims is such that a settlement date is uncertain but the Group expects the claims to be substantially settled by 2021.

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 23.

In the normal course of its business, the Group enters into certain undertakings and commitments to third parties in respect of obligations to perform under contractual arrangements. Obligations to third parties are guaranteed by letters of credit or performance bonds issued by financial institutions. At 31 December 2018, €1.4 million (2017: €1.4 million) was provided by the Group by way of guarantees by financial institutions to third parties. The fair value of guarantees was €nil at 31 December 2018 (2017: €nil).

25. Trade and Other Payables

	31-DEC-18 €'000	31-DEC-17 €'000
Trade payables	**(15,599)**	(8,006)
Accruals	**(96,402)**	(85,379)
Promissory notes (note 29)	**–**	(6,874)
Other payables	**(40,629)**	(40,490)
Taxation and social insurance creditors[1]	**(16,335)**	(9,693)
Total	**(168,965)**	(150,442)
Analysed as follows:		
Non-current	**(6,916)**	(5,354)
Current	**(162,049)**	(145,088)
Total	**(168,965)**	(150,442)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(1,658)**	(1,589)
VAT	**(14,677)**	(8,104)
Total	**(16,335)**	(9,693)

26. Financial Risk Management and Financial Instruments

Accounting classifications and fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments;
- fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed. Refer to note 27 for IFRS 13 disclosures in respect of fair value measurement.

26. Financial Risk Management and Financial Instruments (continued)

	FAIR VALUE HIERARCHY	FVTPL – UNDESIGNATED €'000	FVTPL – DESIGNATED €'000	FVTOCI €'000	AMORTISED COST €'000	TOTAL €'000
At 31 December 2018						
Financial assets						
Cross currency interest rate swaps	Level 2	**–**	**26,922**	**(1,577)**	**–**	**25,345**
Foreign exchange rate contracts	Level 2	**69**	**–**	**–**	**–**	**69**
Trade and other receivables (excluding prepayments)		**–**	**–**	**–**	**89,727**	**89,727**
Cash and cash equivalents		**–**	**–**	**–**	**131,826**	**131,826**
Restricted deposits		**–**	**–**	**–**	**26,700**	**26,700**
Total financial assets		**69**	**26,922**	**(1,577)**	**248,253**	**273,667**
Financial liabilities						
Borrowings and other debt[1]	Level 2	**–**	**(24,167)**	**–**	**(1,167,659)**	**(1,191,826)**
Interest rate/Inflation linked derivatives	Level 2	**(3,937)**	**–**	**–**	**–**	**(3,937)**
Foreign exchange rate contracts	Level 2	**(46)**	**–**	**–**	**–**	**(46)**
Trade and other payables		**–**	**–**	**–**	**(168,965)**	**(168,965)**
Total financial liabilities		**(3,983)**	**(24,167)**	**–**	**(1,336,624)**	**(1,364,774)**
Net financial liabilities/assets		**(3,914)**	**2,755**	**(1,577)**	**(1,088,371)**	**(1,091,107)**
At 31 December 2017						
Financial assets						
Cross currency interest rate swaps	Level 2	–	18,412	(2,495)	–	15,917
Foreign exchange rate contracts	Level 2	134	–	–	–	134
Interest rate/Inflation linked derivatives	Level 2	141	–	–	–	141
Trade and other receivables (excluding prepayments)		–	–	–	141,672	141,672
Cash and cash equivalents		–	–	–	76,226	76,226
Restricted deposits		–	–	–	32,594	32,594
Total financial assets		275	18,412	(2,495)	250,492	266,684
Financial liabilities						
Borrowings and other debt[1]	Level 2	–	(15,578)	–	(1,169,923)	(1,185,501)
Interest rate/Inflation linked derivatives	Level 2	(5,292)	–	–	–	(5,292)
Foreign exchange rate contracts	Level 2	(294)	–	–	–	(294)
Trade and other payables		–	–		(150,442)	(150,442)
Total financial liabilities		(5,586)	(15,578)	–	(1,320,365)	(1,341,529)
Net financial (liabilities)/assets		(5,311)	2,834	(2,495)	(1,069,873)	(1,074,845)

1 The fair value of borrowings and other debt as at 31 December 2018 was €1,206.0 million (2017: €1,206.1 million).

Derivative assets and liabilities designated as hedges

The Group applies the criteria defined by IFRS 9 (2017: IAS 39) in classifying derivatives as hedges. Only derivative instruments external to the Group qualify for consideration for hedge accounting. The Group uses the following categories for hedges:

(i) Fair value hedges (FVTPL – designated)

These instruments hedge the exposure of changes in the fair value of an asset or liability recorded in the balance sheet, or a firm commitment to purchase or sell an asset. The ineffective portion of fair value hedges was €0.1 million for 2018 (2017: €0.1 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2018 was €26.9 million asset (2017: €18.4 million asset).

26. Financial Risk Management and Financial Instruments (continued)

(ii) Cash flow hedges (FVTOCI)

The fair value of hedging derivatives in a cash flow hedge in the balance sheet as at 31 December 2018 was €1.6 million liability (2017: €2.5 million liability). These instruments hedge highly probable future transactions where the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument. The amount reclassified from equity to profit or loss due to ineffectiveness on cash flow hedges during 2018 was €nil (2017: €nil). Ineffectiveness arising from cash flow hedges recognised in the profit or loss in 2018 was €nil (2017: €0.1 million gain).

Maturity profile of cash flow hedges

The periods when cash flow hedges are expected to occur and as such affect profit or loss are as follows:

	< 1 YEAR €'000	1–2 YEARS €'000	2–5 YEARS €'000	> 5 YEARS €'000	TOTAL €'000
At 31 December 2018					
Cross currency interest rate swaps	**(1,210)**	**–**	**(367)**	**–**	**(1,577)**
Cash flow hedging derivatives	**(1,210)**	**–**	**(367)**	**–**	**(1,577)**
At 31 December 2017					
Cross currency interest rate swaps	–	(1,087)	(1,408)	–	(2,495)
Cash flow hedging derivatives	–	(1,087)	(1,408)	–	(2,495)

Financial risk management

The Group has established financial risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In using derivatives, the Group complies with the Requirements of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act 1992 and the Specification of the Minister for Finance and there are procedures in place whereby this compliance is monitored, reviewed and reported to the Board on a regular basis.

The Group's treasury function is not operated as a profit centre and treasury positions are managed in a risk averse manner. All treasury transactions have a valid underlying business reason and speculative positions are strictly prohibited.

(i) Credit risk

Credit risk is defined as the total loss that the Group would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. It includes assets held with banks and financial institutions, transactions in relation to derivative financial instruments and credit exposures arising from trading relationships with customers. The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

Under the Gas network code of operations, Shippers may be required to provide Financial Security to Gas Networks Ireland in order to protect the Group against non-payment of Gas transportation invoices. Related funds received are held on deposit and are included within the restricted deposits balance. Refer to note 16.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31–DEC–18 €'000	31–DEC–17 €'000
Trade and other receivables (excluding grant receivable, prepayments and amounts due from non-controlled undertakings)	**54,628**	114,898
Cash and cash equivalents	**131,826**	76,226
Restricted deposits	**26,700**	32,594
Derivative financial instruments	**25,414**	16,192
Total	**238,568**	239,910

26. Financial Risk Management and Financial Instruments (continued)

(i) (a) Treasury related credit risk

The Group operates a centralised treasury function, which undertakes all treasury activities of the Group.

Group Treasury manages treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. It is the Group's policy that cash is mainly placed on deposit with institutions who maintain an investment grade credit rating. Group Treasury regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to the Group's net worth, the Group will consider entering into credit support arrangements.

(i) (b) Trade related credit risk

Refer to note 14 for an analysis of the Group's exposure to trade related credit risk.

(ii) Funding and liquidity risk

The Group's approach to managing funding and liquidity risk is to ensure, as far as possible, that it has adequate resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Group Treasury develops and maintains relationships with financial institutions in order to develop their understanding of the business and to build their long-term commitment to the Group. All banking and treasury services are sourced at competitive prices. The Group Head of Treasury, supported by the Group Chief Financial Officer, the Group Chief Executive Officer and other appropriate senior managers, are responsible for managing and maintaining relationships.

Group Treasury is responsible for ensuring the Group has access to sufficient liquidity to ensure that the Group is able to settle obligations arising through its day-to-day operations, maturing debt obligations and capital investment outlays. Cash pooling is carried out and account balances netted where possible to minimise cash leakage and the interest expense. Group Treasury undertake cash forecasting and planning in conjunction with the Group on a regular basis. Cash flow forecasts are updated on a daily and weekly basis and used to manage liquidity.

(ii) (a) Funding

The Group's funding position remained strong in 2018. In December 2018, the Group executed a €100.0 million financing facility with the European Investment Bank, this facility will underpin continued investment in the gas network.

It is the Group's policy to seek to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Group continues to maintain a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2018, the Group had €1,622.2 million in committed facilities (2017: €1,525.6 million). Borrowings at 31 December 2018 were €1,191.8 million (2017: €1,185.5 million).

The Group arranges its committed facilities to cover 120% of core projected needs over a one-year horizon. Facilities are arranged with appropriate financial and operating covenants ensuring that management has the necessary flexibility in the operation of its business.

The Group credit rating was moved to Gas Networks Ireland in 2015. Gas Networks Ireland is rated A by Standard & Poor's and A3 by Moody's Investors Services. This strong credit rating enables Gas Networks Ireland to have access to a wide diversity of funding sources and ensures it can raise low cost funding.

(ii) (b) Cash surpluses

Cash surpluses are used primarily to reduce the level of debt. The Group does not systematically and continually deposit and borrow funds, although circumstances will arise from time to time where it is necessary or advantageous to hold cash on deposit. Cash surpluses may be invested in, but not limited to; Deposit Accounts, Time Deposits, Commercial Paper, Exchequer Bills, Government Bonds, Money Market Funds and Certificates of Deposit. The Group will invest surplus cash in euro or in the currency of overseas operations.

(ii) (c) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The

26. Financial Risk Management and Financial Instruments (continued)

disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward foreign exchange rate contracts.

	CARRYING AMOUNT €'000	CONTRACTUAL CASH FLOWS €'000	< 1 YEAR €'000	1–2 YEARS €'000	2–5 YEARS €'000	> 5 YEARS €'000
At 31 December 2018						
Borrowings	**(1,191,826)**	**(1,329,278)**	**(470,851)**	**(20,742)**	**(155,497)**	**(682,188)**
Trade and other payables	**(168,965)**	**(169,215)**	**(162,049)**	**(815)**	**(5,910)**	**(441)**
Non-derivative financial liabilities	**(1,360,791)**	**(1,498,493)**	**(632,900)**	**(21,557)**	**(161,407)**	**(682,629)**
Interest rate derivatives	**(3,937)**	**(4,062)**	**(1,941)**	**(2,121)**	**–**	**–**
Cross currency interest rate swaps	**25,345**	**36,088**	**18,624**	**4,349**	**13,115**	**–**
Foreign exchange rate contracts	**23**	**23**	**23**	**–**	**–**	**–**
Net derivative financial assets	**21,431**	**32,049**	**16,706**	**2,228**	**13,115**	**–**
Net financial liabilities	**(1,339,360)**	**(1,466,444)**	**(616,194)**	**(19,329)**	**(148,292)**	**(682,629)**
At 31 December 2017						
Borrowings	(1,185,501)	(1,346,111)	(129,103)	(364,973)	(160,160)	(691,875)
Trade and other payables	(150,442)	(150,442)	(145,088)	–	(5,354)	–
Non-derivative financial liabilities	(1,335,943)	(1,496,553)	(274,191)	(364,973)	(165,514)	(691,875)
Interest rate derivatives	(5,151)	(5,232)	(1,938)	(1,907)	(1,387)	–
Cross currency interest rate swaps	15,917	30,395	8,328	11,717	10,350	–
Foreign exchange rate contracts	(160)	(160)	(160)	–	–	–
Net derivative financial assets	10,606	25,003	6,230	9,810	8,963	–
Net financial liabilities	(1,325,337)	(1,471,550)	(267,961)	(355,163)	(156,551)	(691,875)

(iii) Market risk

Market risk is the possibility that changes in market factors will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Group Treasury is responsible for managing market risk with respect to interest rates and currency exchange rates. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Treasury Policy. Group Treasury generally seeks to apply hedge accounting in order to manage volatility in profit or loss.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Group's operations are conducted in currencies other than euro (mainly sterling). The objective of exchange rate risk management is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements.

The potential exposure to exchange rate risk can be summarised as follows:

- **Subsidiaries operating in foreign currency (sterling)**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The results of foreign operations are translated to euro at average exchange rates for the period, when they represent a reasonable approximation of the actual rates incurred. Exchange differences on retranslation of the opening net assets and the results are recognised in other comprehensive income and presented as a separate component of equity (translation reserve). Group Treasury monitor this risk, and if deemed material, hedge the risk using foreign exchange deals.

Intra-group funding to foreign currency subsidiaries is translated into euro using the exchange rates at the reporting date. The profit/loss arising on the translation of the intra-group funding to foreign subsidiaries is taken to the income statement. The profit/loss arising on the translation of foreign currency borrowings, to the extent that they are used to finance or to provide a hedge

26. Financial Risk Management and Financial Instruments (continued)

against the intragroup funding in foreign subsidiaries, is also taken to the income statement. The Policy is to match, insofar as is practical, the movements on both of these, using foreign exchange transactions where necessary.

Transaction exposure

From time to time the Group makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to net purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment.

Also, the Treasury Policy is that all expected transactions in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

Debt in a foreign currency

The Group has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps. Sterling debt is used to hedge the investment in the sterling denominated subsidiary. Refer to note 18.

As a result of these actions taken by the Group to mitigate its underlying sensitivity to currency exchange rate fluctuations, the Group has not presented sensitivity analysis as any potential variation is insignificant.

(iii) (b) Interest rate risk

Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Group and the level of finance charges. The Group's objective is to achieve a stable and low cost of debt, taking account of business risks in general and in particular the regulatory price control environment.

The Group's exposure to interest rate fluctuations covers two types of risk:

(i) a risk of change in the cash flows related to floating rate financial assets and liabilities; and

(ii) a risk of change in the value of fixed rate financial assets and liabilities.

The Group monitors exposure to interest rate risk on a calendar year basis. The Group's policy is to monitor open interest rate exposure positions, taking into account the current and expected shape of the yield curve, with a view to taking advantage of low interest rate environments to fix the Group's interest rate obligations and increase certainty as to the Group's interest rate expense profile. The Group uses a number of methods, including interest rate derivatives to manage the interest rate risk on its debt portfolio.

The percentage of the Group's fixed and floating rate debt at 31 December was as follows:

	2018 €'000	2018 %	2017 €'000	2017 %
At fixed rates[1]	**(733,478)**	**61.6%**	(733,196)	61.8%
At floating rates	**(453,126)**	**38.0%**	(444,553)	37.5%
Inflation linked debt	**(5,222)**	**0.4%**	(7,752)	0.7%
Total	**(1,191,826)**	**100.0%**	(1,185,501)	100.0%

[1] including swaps.

The Group had €622.2 million of fixed rate debt (excluding interest rate swaps) at 31 December 2018 (2017: €621.9 million).

On 31 December 2018, the Group had US$290 million (2017: US$290 million) fixed rate debt outstanding (€230.3 million equivalent (2017: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group has a number of cross currency interest rate swaps which match the maturity profile of the debt. In 2017, a portion of this debt was subsequently hedged to convert the floating euro interest rates to fixed interest rates. At 31 December 2018, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in H2 2017 and were swapped for four years at an average rate of 0.004%.

At 31 December 2018, the weighted average interest rate of the fixed debt portfolio was 1.32% (2017: 1.32%) which comprised of 2 bonds of €622.3 million and an interest rate swap portfolio of €111.2 million.

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

26. Financial Risk Management and Financial Instruments (continued)

Cash flow sensitivity analysis for floating rate debt

The Group's policies and processes for the management and control of interest rate risk, as set out above, aims to reduce the impact of short-term interest rate fluctuations on the Group's earnings. Nevertheless, long-term changes in interest rates will have an impact on the Group's earnings.

It is estimated that a movement of 50 basis points in interest rates at 31 December would impact profit before taxation by the amounts shown below, and the fair value change on other comprehensive income would be as shown below:

	PROFIT BEFORE TAXATION 31-DEC-18 €'000	PROFIT BEFORE TAXATION 31-DEC-17 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-18 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-17 €'000
50 bp increase	**3,442**	4,379	**–**	–
50 bp decrease	**(3,908)**	(4,280)	**–**	–

The following assumptions were made in respect of the sensitivity analysis above:

- all other variables, in particular foreign currency rates, remain constant;
- relates only to derivative financial instruments and floating debt;
- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

The impact on the income statement, of a 50bp increase/decrease, is opposite but is not equal in amount because the rate changes in the sensitivity analysis also impacts the discount curves used on the relevant cash flows for interest rate derivatives.

27. Fair Value Measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent that it is available.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(a) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table sets out the valuation techniques applied by the Group in measuring fair value, together with any significant unobservable inputs.

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS
Forward exchange contracts *(Refer to note 26)*	The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Interest rate swaps and cross currency interest rate swaps *(Refer to note 26)*	The fair value of interest rate swaps and cross currency interest rate swaps takes into account the fixed, floating and market rates prevailing at the year end. The fair value of inflation linked swaps is determined using a valuation technique which includes market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the relevant Group entity and counterparty when appropriate. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.
Private Placement *(fair value hedge portion) (Refer to note 26)*	The fair value of the fixed rate debt is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date. Fair value hierarchy: level 2	All significant inputs required to fair value the instrument are observable.

(b) Fair value of financial liabilities that are not measured at fair value (but fair value disclosures are required)

The fair value of borrowings, measured at amortised cost is estimated by discounting the future cash flows to net present values using market rates prevailing at the reporting date - Fair value hierarchy: level 2.

28. Operating Leases

Operating Lease Commitments

The following operating leases are payable by the Group over the remaining lease terms and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis.

	31–DEC–18 €'000	31–DEC–17 €'000
Amounts payable:		
In less than one year	**(1,123)**	(1,123)
Between one and five years	**(4,339)**	(4,493)
After five years	**(10,832)**	(12,015)
Total	**(16,294)**	(17,631)

Amounts included in the income statement in respect of land and building lease arrangements were €1.1 million (2017: €0.9 million).

Future Operating Lease Income

	31–DEC–18 €'000	31–DEC–17 €'000
Amounts receivable:		
In less than one year	**23,908**	26,492
Between one and five years	**79,885**	85,899
More than five years	**106,574**	125,359
Total	**210,367**	237,750

The Group's future operating lease income relates to agreements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Above is a profile of non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 4 to 13 years.

29. Subsidiaries

At 31 December 2018 the Group had the following subsidiaries:

COMPANY	NATURE OF BUSINESS	GROUP SHARE
1 Aurora Telecom DAC	Non Trading	100%
2 Gas Networks Ireland (IOM) DAC	Gas Transmission	100%
3 GNI (UK) Limited	Gas Transmission	100%
4 Gas Networks Ireland	Gas Transmission	100%
5 Gaslink Independent System Operator DAC	Non Trading	100%
Non-controlled undertaking		
6 Ervia ESOP Trustee DAC	Trustee for Employee Share Ownership Plan	see (a) below
7 Irish Water	Water and Waste Water Services	see (b) below

The registered office of 1, 2 and 4 to 6 is:	Gasworks Road, Cork, Ireland.
The registered office of 3 is:	6 St. Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom.
The registered office of 7 is:	Colvill House, 24/26 Talbot Street, Dublin 1, Ireland.

(a) Ervia ESOP Trustee DAC was incorporated as trustee of the Ervia Employee Share Ownership Trust and the Ervia Approved Profit Sharing Scheme. The Group has no ability or rights to exert control over the assets or management of the company. The Board of Directors is chaired by an independent professional director with four directors representing Ervia employees and two directors appointed by Ervia. In accordance with IFRS 10, the financial statements of Ervia ESOP Trustee DAC are not consolidated with the results of the Group.

Agreement was reached in March 2014 regarding the buy-out of the 3.27% of the capital stock of Ervia held by the Trustee on behalf of ESOP beneficiaries. The agreement provided for the acquisition of the entire capital stock issued to the Ervia ESOT in exchange for promissory notes issued by Ervia to be redeemed over the period 2014 to 2018. The promissory notes do not bear a coupon while in issue. Refer to note 25.

(b) At 31 December 2018, the Group held a single voting share in Irish Water, with no economic rights attributable to that share. The Minister for Finance and Minister for Housing, Planning and Local Government each held 325 (2017: 325) Water Economic Rights ('WER') shares which carried no voting rights but carried all the economic rights to obtain benefit from the activities of Irish Water.

IFRS 10 states "an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". The Group's single voting share in Irish Water represents an existing right at 31 December 2018 that gives the Group the power to govern the financial and operating policies of Irish Water. However, as this power cannot be used to obtain variable returns, as the Group does not have rights to the variable returns of Irish Water at that date, as required by IFRS 10, and therefore in order to comply with the requirements of IFRS, the financial statements of Irish Water are not consolidated with the results of the Group.

30. Related Parties

The related party income/(expense) transaction values for 2018 and 2017 are detailed below:

		2018 €'000	2017 €'000
Irish Water	(iv)		
Transactional and support service agreement costs	(iv) (a)	**44,044**	43,073
		44,044	43,073

The related party balances receivable/(payable) are detailed below:

		31-DEC-18 €'000	31-DEC-17 €'000
Irish Water	(iv)	**28,000**	26,774
		28,000	26,774

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

(ii) Government sponsored bodies

In common with many other entities, the Group deals in the normal course of business with other Government sponsored bodies, such as the Electricity Supply Board, Eirgrid and Local Authorities.

(iii) Banks owned by the Irish State

In the normal course of business, the Group transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Group's transactions with such banks are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2018.

(iv) Irish Water

Irish Water is deemed to be a related party of the Group, on the basis of the fact pattern set out in note 29.

(a) Transactional and support service agreement costs

The Group provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Business Services. The Business Services organisation is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT. The costs relating to the secondment of employees are recharged to Irish Water on a full cost recovery method with no margin earned. In addition Irish Water is recharged for the use of the Group's properties.

(b) Joint projects

In the normal course of business, Irish Water transacts with the Group in respect of their joint utility projects. No overhead or margins are applied by the companies, resulting in a direct recharge of costs incurred. Balances outstanding in respect of these transactions are included in the table above.

(c) Pension cost

The Group operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Group's current service costs for 2018 (as set out in note 21) includes €1.0 million (2017: €1.1 million) which represents contributions payable for the year in respect of Irish Water employees. These costs are not included in the Group's employee benefit expense.

30. Related Parties (continued)

(v) Board members' interests

The Board members had no beneficial interests in the Group at any time during the year or at 31 December 2018.

(vi) Subsidiary undertakings

The Group financial statements consolidate the results of the Parent and its subsidiaries as documented in the accounting policies. A listing of the subsidiaries is provided in note 29. Transactions with related parties are entered into in the normal course of business. Sales to and from, together with outstanding payables and receivables to and from subsidiaries, are eliminated in the preparation of the consolidated financial statements, in accordance with IFRS 10.

31. Subsequent Events

There have been no events between the reporting date and the date on which the financial statements were approved by the Board, which would require adjustment to these financial statements or any additional disclosures.

Parent Income Statement

for the year ended 31 December 2018

	NOTES	BEFORE EXCEPTIONAL ITEMS 2018 €'000	EXCEPTIONAL ITEMS (INCL CERTAIN REMEASUREMENTS) NOTE 6 2018 €'000	AFTER EXCEPTIONAL ITEMS 2018 €'000	BEFORE EXCEPTIONAL ITEMS 2017 €'000	EXCEPTIONAL ITEMS (INCL CERTAIN REMEASUREMENTS) NOTE 6 2017 €'000	AFTER EXCEPTIONAL ITEMS 2017 €'000
Continuing operations							
Revenue		**–**	**–**	**–**	–	–	–
Operating costs (excluding depreciation and amortisation)	1	**(6,094)**	**–**	**(6,094)**	(5,191)	–	(5,191)
Operating loss before depreciation and amortisation (EBITDA)		**(6,094)**	**–**	**(6,094)**	(5,191)	–	(5,191)
Depreciation and amortisation	5	**(386)**	**–**	**(386)**	(373)	–	(373)
Operating loss		**(6,480)**	**–**	**(6,480)**	(5,564)	–	(5,564)
Finance income	6	**54,189**	**–**	**54,189**	48,440	4,468	52,908
Finance costs	6	**(2,647)**	**(101)**	**(2,748)**	(2,695)	–	(2,695)
Net finance income/(costs)	6	**51,542**	**(101)**	**51,441**	45,745	4,468	50,213
Profit/(loss) before income tax		**45,062**	**(101)**	**44,961**	40,181	4,468	44,649
Income tax credit/(expense)	7	**3,510**	**13**	**3,523**	1,760	(27)	1,733
Profit/(loss) for the year		**48,572**	**(88)**	**48,484**	41,941	4,441	46,382
Profit/(loss) attributable to:							
Owners of the Parent		**48,572**	**(88)**	**48,484**	41,941	4,441	46,382
Profit/(loss) for the year		**48,572**	**(88)**	**48,484**	41,941	4,441	46,382

For and on behalf of the Board:

26th March 2019

Chairman | Member of the Board | Date of Approval

Note: See note 1a of the Group financial statements for definitions of exceptional items (including certain remeasurements).

Parent Statement of Other Comprehensive Income

for the year ended 31 December 2018

	NOTES	2018 €'000	2017 €'000
Profit for the year		**48,484**	46,382
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains	12	**39,147**	10,023
Deferred tax expense relating to defined benefit obligations	7	**(4,893)**	(1,253)
Total items that will not be reclassified to profit or loss		**34,254**	8,770
Total other comprehensive income for the year, net of income tax		**34,254**	8,770
Total comprehensive income for the year		**82,738**	55,152
Total comprehensive income attributable to:			
Owners of the Parent		**82,738**	55,152
Total comprehensive income for the year		**82,738**	55,152

For and on behalf of the Board:

Chairman	Member of the Board	26th March 2019 Date of Approval

Parent Balance Sheet

as at 31 December 2018

	NOTES	31-DEC-18 €'000	31-DEC-17 €'000
Assets			
Non-current assets			
Property, plant and equipment	8	**8,000**	8,181
Investment in subsidiary undertakings	17	**681,436**	681,436
Trade and other receivables	9	**5,100**	–
Deferred tax assets	7	**2,868**	6,514
Total non-current assets		**697,404**	696,131
Current assets			
Trade and other receivables	9	**186,605**	272,610
Cash and cash equivalents	10	**15,236**	24,778
Derivative financial instruments	15	**–**	95
Current tax assets	7	**–**	87
Total current assets		**201,841**	297,570
Total assets		**899,245**	993,701
Equity and liabilities			
Equity			
Retained earnings		**(771,358)**	(832,809)
Total equity attributable to equity holders of the Parent		**(771,358)**	(832,809)
Liabilities			
Non-current liabilities			
Retirement benefit obligations	12	**(98,381)**	(127,828)
Trade and other payables	14	**(6,916)**	(5,354)
Total non-current liabilities		**(105,297)**	(133,182)
Current liabilities			
Trade and other payables	14	**(22,481)**	(27,710)
Derivative financial instruments	15	**(6)**	–
Current tax liabilities	7	**(103)**	–
Total current liabilities		**(22,590)**	(27,710)
Total liabilities		**(127,887)**	(160,892)
Total equity and liabilities		**(899,245)**	(993,701)

For and on behalf of the Board:

Tony Keohane
Chairman

Peter Cross
Member of the Board

26th March 2019
Date of Approval

Parent Statement of Changes in Equity

for the year ended 31 December 2018

	RETAINED EARNINGS €'000
Balance at 1 January 2017	(926,097)
Profit for the year	(46,382)
Other comprehensive expense for the year, net of income tax	(8,770)
Total comprehensive expense for the year	(55,152)
Dividends declared	148,440
Balance at 31 December 2017	(832,809)
Profit for the year	**(48,484)**
Other comprehensive income for the year, net of income tax	**(34,254)**
Total comprehensive income for the year	**(82,738)**
Dividends declared	**144,189**
Balance at 31 December 2018	**(771,358)**

All attributable to owners of the Parent.

Parent Statement of Cash Flows

for the year ended 31 December 2018

	NOTES	2018 €'000	2017 €'000
Net cash from operating activities	11	**(9,708)**	12,264
Cash flows from investing activities			
Receipt/(payment) relating to the sale of Energy division		**20,172**	(1,614)
Payments for property, plant and equipment		**(232)**	–
Dividends received		**54,189**	48,440
Net cash from investing activities		**74,129**	46,826
Cash flows from financing activities			
Redemption of promissory notes		**(6,874)**	(9,001)
Subsidiary loan repayments		**72,000**	95,921
Dividends paid		**(139,089)**	(148,440)
Net cash used in financing activities		**(73,963)**	(61,520)
Net decrease in cash and cash equivalents	10	**(9,542)**	(2,430)
Cash and cash equivalents at 1 January	10	**24,778**	27,208
Cash and cash equivalents at 31 December	10	**15,236**	24,778

Notes to the Parent Financial Statements

Notes to the Parent Financial Statements

1. Operating Costs (excluding depreciation and amortisation)

	2018 €'000	2017 €'000
Employee benefit expense	**(43,934)**	(37,294)
Hired and contracted services	**(4,940)**	(8,141)
Materials, maintenance and sub-contractor costs	**(10,603)**	(11,638)
Rent, rates and facilities	**(1,356)**	(1,483)
Other operating expenses	**(12,030)**	(11,184)
Recharges to non-controlled undertakings	**44,044**	43,073
Recharges to subsidiary undertakings	**22,725**	21,476
Total	**(6,094)**	(5,191)

Refer to note 4 for disclosures in respect of the Group's Auditor's remuneration and Board members' emoluments.

2. Employee Benefits

(a) Aggregate employee benefits

	2018 €'000	2017 €'000
Staff short-term benefits	**(34,095)**	(28,784)
Post-employment benefits – pension contributions*	**(12,387)**	(10,061)
Employer's contribution to social welfare	**(3,656)**	(3,111)
	(50,138)	(41,956)
Capitalised payroll and other payroll transfers	**6,204**	4,662
Employee benefit expense charged to profit or loss	**(43,934)**	(37,294)

(b) Staff short-term benefits

	2018 €'000	2017 €'000
Wages and salaries	**(32,756)**	(27,611)
Overtime	**(31)**	(33)
Allowances	**(194)**	(184)
Other	**(1,114)**	(956)
Total	**(34,095)**	(28,784)

The average number of employees employed by the Parent was 427 for 2018 (2017: 367).

*Includes unallocated non-cash pension costs attributable to non-Parent company employees (i.e. eligible subsidiary and non-controlled undertaking employees) who participate in the Ervia defined benefit scheme.

3. Key Management Compensation

Refer to note 6 of the Group Financial Statements for details in respect of the Group's key management compensation.

4. Exceptional Items

Refer to note 7 of the Group Financial Statements for detail in respect of exceptional costs incurred in 2018 and 2017.

5. Depreciation and Amortisation

	2018 €'000	2017 €'000
Depreciation	**(386)**	(373)
Total	**(386)**	(373)

6. Net Finance Costs

		2018 €'000	2017 €'000
Before exceptional items			
Finance income			
Dividends received		**54,189**	48,440
Total finance income		**54,189**	48,440
Finance costs			
Net interest on the net defined benefit liability		**(2,125)**	(2,204)
Other finance costs		**(522)**	(491)
Total finance costs		**(2,647)**	(2,695)
Exceptional items			
Net changes in fair value of financing undesignated derivatives	(i)	**(101)**	215
Change in estimate of cash flow on contingent consideration	(ii)	**–**	4,253
Total exceptional items		**(101)**	4,468
Total			
Finance income		**54,189**	52,908
Finance costs		**(2,748)**	(2,695)
Net finance income		**51,441**	50,213

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Group's accounting policy. Further details on derivative financial instruments falling within the scope of IFRS 9 are set out in accounting policy xi.

(ii) During 2017, the Parent recognised a non-cash remeasurement gain of €4.3 million due to changes in the expected future cash flows relating to contingent consideration previously recognised. Refer to note 27 for further details.

7. Tax

	2018 €'000	2017 €'000
Current tax credit/(expense)		
Current tax	**(285)**	(188)
Adjustments in respect of previous years	**2,561**	548
	2,276	360
Deferred tax credit		
Origination and reversal of temporary differences	**1,247**	1,373
Adjustments in respect of previous years	**–**	–
	1,247	1,373
Total income tax credit	**3,523**	1,733

Reconciliation of effective tax rate

	2018 €'000	2017 €'000
Profit before tax	**44,961**	44,649
Taxed at 12.5% (2017: 12.5%)	**(5,620)**	(5,581)
Expenses deductible/(not deductible) for tax purposes	**(106)**	74
Income not taxable	**6,773**	6,587
Profits taxed at higher rates	**(85)**	(86)
Exchange adjustments	**–**	191
Adjustments to tax charge in respect of previous years	**2,561**	548
Total income tax credit	**3,523**	1,733

Refer to the Parent statement of other comprehensive income for details of the tax impacts therein.

Current tax assets and liabilities

	31-DEC-18 €'000	31-DEC-17 €'000
Current tax assets	**–**	87
Current tax liabilities	**(103)**	–

Deferred tax assets and liabilities

	RETIREMENT BENEFIT OBLIGATION €'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS €'000	INTEREST €'000	OTHER €'000	TOTAL €'000
At 1 January 2017	16,161	(192)	(9,833)	258	6,394
Recognised in income statement	1,071	(3)	381	(76)	1,373
Recognised in equity	(1,253)	–	–	–	(1,253)
At 31 December 2017	15,979	(195)	(9,452)	182	6,514
Recognised in income statement	**1,212**	**13**	**100**	**(78)**	**1,247**
Recognised in equity	**(4,893)**	**–**	**–**	**–**	**(4,893)**
At 31 December 2018	**12,298**	**(182)**	**(9,352)**	**104**	**2,868**

The following deferred tax assets have not been recognised in the balance sheet as it is not probable that they will be recovered for the foreseeable future. There is no expiry date as to when tax losses can be utilised.

	2018 €'000	2017 €'000
Capital losses	**3,600**	3,600

8. Property, Plant and Equipment

	LAND AND BUILDINGS €'000	PLANT, PIPELINE AND MACHINERY €'000	TOTAL €'000
Cost			
At 1 January 2017	21,345	161	21,506
Disposals	–	(53)	(53)
At 31 December 2017	21,345	108	21,453
Additions	**–**	**232**	**232**
Disposals	**–**	**(94)**	**(94)**
At 31 December 2018	**21,345**	**246**	**21,591**
Accumulated depreciation and impairment losses			
At 1 January 2017	(12,852)	(88)	(12,940)
Depreciation for the year	(343)	(30)	(373)
Disposals	–	41	41
At 31 December 2017	(13,195)	(77)	(13,272)
Depreciation for the year	**(343)**	**(43)**	**(386)**
Disposals	**–**	**67**	**67**
At 31 December 2018	**(13,538)**	**(53)**	**(13,591)**
Carrying amounts			
At 31 December 2017	8,150	31	8,181
At 31 December 2018	**7,807**	**193**	**8,000**

Capital commitments

	2018 €'MILLION	2017 €'MILLION
Contracted for	**3**	9

9. Trade and Other Receivables

	31-DEC-18 €'000	31-DEC-17 €'000
Amounts due from subsidiary undertakings	**160,031**	225,680
Amounts due from non-controlled undertakings	**27,408**	23,382
Prepayments	**3,971**	3,085
Other receivables	**295**	20,463
Total	**191,705**	272,610
Analysed as follows:		
Non-current	**5,100**	–
Current	**186,605**	272,610
Total	**191,705**	272,610

Refer to note 18 for further details in respect of balances with subsidiary companies and non-controlled undertakings.

Credit risk

Credit risk on receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Prepayments and amounts due from subsidiary/non-controlled undertakings are excluded from the analysis of credit exposure below. The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Other receivables	**295**	20,463
Total	**295**	20,463

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Ireland	**295**	20,463
Total	**295**	20,463

The ageing of trade and other receivables, net of impairment, is as follows:

	31-DEC-18 €'000	31-DEC-17 €'000
Not past due	**295**	20,463
Total	**295**	20,463

10. Cash and Cash Equivalents

Cash and cash equivalents are held for the purpose of meeting liquidity requirements.

	31-DEC-18 €'000	31-DEC-17 €'000
Cash and cash equivalents	**15,236**	24,778

	2018 €'000	2017 €'000
At 1 January	**24,778**	27,208
Decrease in cash and cash equivalents in the statement of cash flows	**(9,542)**	(2,430)
At 31 December	**15,236**	24,778

11. Cash Generated from Operations

	NOTES	2018 €'000	2017 €'000
Cash flows from operating activities			
Profit for the year		**48,484**	46,382
Adjustments for:			
Depreciation and amortisation	5	**386**	373
Retirement benefit cost	12	**7,660**	6,424
Net finance income	6	**(51,441)**	(50,213)
Income tax credit	7	**(3,523)**	(1,733)
		1,566	1,233
Working capital changes:			
Change in trade and other receivables		**(5,594)**	929
Change in trade and other payables		**(5,470)**	3,110
Cash from operating activities		**(9,498)**	5,272
Interest received/(paid)		**(123)**	1,057
Income tax received/(paid)		**(87)**	5,935
Net cash from operating activities		**(9,708)**	12,264

12. Retirement Benefit Obligations

Refer to note 21 of the Group Financial Statements for disclosure in respect of the Group's retirement benefit obligations.

13. Contingencies

There are no material contingent liabilities that the Company is aware of that require disclosure.

14. Trade and Other Payables

	31-DEC-18 €'000	31-DEC-17 €'000
Trade payables	**(5,475)**	(2,485)
Accruals	**(15,372)**	(15,810)
Promissory notes (Note 29)	**–**	(6,874)
Other payables	**(7,831)**	(6,916)
Amounts due to subsidiary companies	**(85)**	(85)
Taxation and social insurance creditors[1]	**(634)**	(894)
Total	**(29,397)**	(33,064)
Analysed as follows:		
Non-current	**(6,916)**	(5,354)
Current	**(22,481)**	(27,710)
Total	**(29,397)**	(33,064)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(1,107)**	(917)
VAT	**473**	23
Total	**(634)**	(894)

15. Financial Risk Management and Financial Instruments

This note presents information about the Parent's financial instruments and financial risk management.

	FAIR VALUE HIERARCHY €'000	FVTPL – UNDESIGNATED €'000	FVTPL – DESIGNATED €'000	FVTOCI €'000	AMORTISED COST €'000	TOTAL €'000
At 31 December 2018						
Financial assets						
Trade and other receivables (excluding prepayments)		**–**	**–**	**–**	**187,734**	**187,734**
Cash and cash equivalents		**–**	**–**	**–**	**15,236**	**15,236**
Total financial assets		**–**	**–**	**–**	**202,970**	**202,970**
Financial liabilities						
Foreign exchange rate contracts	Level 2	**(6)**	**–**	**–**	**–**	**(6)**
Trade and other payables		**–**	**–**	**–**	**(29,397)**	**(29,397)**
Total financial liabilities		**(6)**	**–**	**–**	**(29,397)**	**(29,403)**
Net financial assets		**(6)**	**–**	**–**	**173,573**	**173,567**
At 31 December 2017						
Financial assets						
Foreign exchange rate contracts	Level 2	95	–	–	–	95
Trade and other receivables (excluding prepayments)		–	–	–	269,525	269,525
Cash and cash equivalents		–	–	–	24,778	24,778
Total financial assets		95	–	–	294,303	294,398
Financial liabilities						
Trade and other payables		–	–	–	(33,064)	(33,064)
Total financial liabilities		–	–	–	(33,064)	(33,064)
Net financial assets		95	–	–	261,239	261,334

Financial risk management

Refer to note 26 of the Group Financial Statements for details of the Group's financial risk management policies. These objectives, policies and processes are also adopted by the Parent.

(i) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31–DEC–18 €'000	31–DEC–17 €'000
Trade and other receivables (excluding prepayments and amounts owed by subsidiary/non-controlled undertakings)	**295**	20,463
Cash and cash equivalents	**15,236**	24,778
Derivative financial instruments	**–**	95
Total	**15,531**	45,336

(i) (a) Treasury related credit risk

Refer to note 26 of the Group Financial Statements for an analysis of the Group's policies in respect of treasury related credit risk. These objectives, policies and processes are also adopted by the Parent.

(i) (b) Trade related credit risk

Refer to note 14 of the Group Financial Statements for an analysis of the Parent's exposure to trade related credit risk.

15. Financial Risk Management and Financial Assets/Liabilities (continued)

(ii) Liquidity risk

Refer to note 26 of the Group Financial Statements for details of the Group's objectives, policies and processes for managing liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Parent.

The following are the contractual maturities of financial liabilities (and assets of a similar nature), including the undiscounted interest payment associated with borrowings and the undiscounted net cash flows attributable to financial instruments. The disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward foreign exchange rate contracts.

	CARRYING AMOUNT €'000	CONTRACTUAL CASH FLOWS €'000	< 1 YEAR €'000	1–2 YEARS €'000	2–5 YEARS €'000	> 5 YEARS €'000
At 31 December 2018						
Foreign exchange rate contracts	**(6)**	**(6)**	**(6)**	**–**	**–**	**–**
Net derivative financial assets	**(6)**	**(6)**	**(6)**	**–**	**–**	**–**
Trade and other payables	**(29,397)**	**(29,647)**	**(22,481)**	**(815)**	**(5,910)**	**(441)**
Non-derivative financial liabilities	**(29,397)**	**(29,647)**	**(22,481)**	**(815)**	**(5,910)**	**(441)**
Net financial liabilities	**(29,403)**	**(29,653)**	**(22,487)**	**(815)**	**(5,910)**	**(441)**
At 31 December 2017						
Foreign exchange rate contracts	95	95	95	–	–	–
Net derivative financial assets	95	95	95	–	–	–
Trade and other payables	(33,064)	(33,007)	(27,653)	–	(5,354)	–
Non-derivative financial liabilities	(33,064)	(33,007)	(27,653)	–	(5,354)	–
Net financial liabilities	(32,969)	(32,912)	(27,558)	–	(5,354)	–

(iii) Market risk

Refer to note 26 of the Group Financial Statements for details of the Group's objectives, policies and processes for managing market risk and the methods used to measure market risk. These objectives, policies and processes are also adopted by the Parent.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Parent's transactions may be conducted in currencies other than euro (mainly sterling).

Transaction exposure

From time to time the Parent makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to match purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Group's treasury policy. Exposures will be hedged taking account of the business risks.

Also, the Group's treasury policy is that all expected exposures in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

As a result of these actions taken by the Group to mitigate the Parent's underlying sensitivity to currency fluctuations, the Parent has not presented sensitivity analysis as any potential variation is insignificant.

16. Operating Leases

The following non-cancellable operating lease commitments are payable by the Parent over the remaining lease terms and generally relate to the rental of office premises. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis. Amounts included in the income statement in respect of land and building lease arrangements was €0.8 million (2017: €0.8 million).

	31-DEC-18 €'000	31-DEC-17 €'000
Amounts payable:		
In less than one year	**(800)**	(800)
Between one and five years	**(3,200)**	(3,200)
After five years	**(7,800)**	(8,600)
Total	**(11,800)**	(12,600)

Future Operating Lease Income

	31-DEC-18 €'000	31-DEC-17 €'000
Amounts receivable:		
In less than one year	**–**	690
Between one and five years	**–**	1,380
Total	**–**	2,070

Future operating lease income relates to future lease income from the rental of office premises. All lease arrangements are at an arm's length basis.

17. Subsidiaries

	€'000
Cost	
At 31 December 2017	681,436
At 31 December 2018	**681,436**
Carrying amount	
At 31 December 2017	681,436
At 31 December 2018	**681,436**

The Parent's subsidiary is Gas Networks Ireland.

18. Related Parties

The related party income/(expense) transaction values for 2018 and 2017 are detailed below for transactional and support service agreement costs:

		2018 €'000	2017 €'000
Irish Water	(iv) (a)	**44,044**	43,073
Subsidiaries	(vii) (a)	**22,725**	21,476
		66,769	64,549

The related party balances receivable/(payable) are detailed below:

	31-DEC-18 €'000	31-DEC-17 €'000
Irish Water	**27,408**	23,382
Subsidiaries	**159,946**	225,595
	187,354	248,977

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

(ii) Government sponsored bodies

In common with many other entities, the Parent deals in the normal course of business with other Government sponsored bodies, such as, the Electricity Supply Board, Eirgrid and Local Authorities.

(iii) Banks owned by the Irish State

In the normal course of business, the Parent transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Parent's transactions with such banks are on normal commercial terms. The Parent had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2018.

(iv) Irish Water

Irish Water is deemed to be a related party of the Parent, on the basis of the fact pattern set out in note 29 of the Group Financial Statements.

(a) Transactional and support service agreement costs

The Parent provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water, through the Group Centre, Major Projects area and Business Services. The Business Services organisation is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT. The costs relating to the secondment of employees are recharged to Irish Water on a full cost recovery method with no margin earned. In addition Irish Water is recharged for the use of the Parent's properties.

(b) Pension costs

The Parent operates a defined benefit pension scheme. A number of Irish Water employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. The Parent, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Irish Water recognises only the cost of contributions payable for the year in respect of Irish Water employees. The Parent's current service costs for 2018 (as set out in note 21 of the Group Financial Statements) includes €1.0 million (2017: €1.1 million) which represents contributions payable for the year in respect of Irish Water employees. These costs were recharged to Irish Water on a full cost recovery method with no margin earned. These costs are not included in the Parent's employee benefit expense.

(v) Gas Networks Ireland

The Parent received an annual dividend of €49.1 million from Gas Networks Ireland during 2018, with the remaining €5.1m receivable in 2023 (2017: €48.4 million).

(vi) Board members' interests

The Board members had no beneficial interests in the Parent at any time during the year or at 31 December 2018.

18. Related Parties (continued)

(vii) Subsidiaries

The Parent entered into transactions with subsidiaries in the normal course of business as follows:

(vii) (a) Transactional and support service agreement costs

Refer to (iv) (a) above for a description of the services provided to subsidiaries.

Notes

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