Progress Naturally

ervia

Annual Report and
Financial Statements

2019

Table of Contents

Ervia is a commercial semi-state company providing the strategic national gas and water infrastructure and services that underpin the growth of the Irish economy. 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. We provide governance and central support services to our regulated businesses Gas Networks Ireland and Irish Water.

Gas Networks Ireland, owns and operates one of the most modern and safest gas networks in the world.

Aurora Telecom, provides high quality dark fibre broadband infrastructure.

Irish Water is responsible for the operation and maintenance of Ireland's water and wastewater assets. Information relating to its performance in 2019 can be found in the Irish Water Annual Report and Financial Statements at www.water.ie

Strategic Report

vision 2050

Our Vision is for Ireland's Gas Network to be Net Zero Carbon by 2050

Climate change is one of our greatest and most urgent global challenges, affecting communities, human health and our environment. Significant growth in population and economic activity continues to increase the demands on energy.

read more on pages 20 and 21.

The Chairman's Report

Tony Keohane
Chairman

As Chairman of the Board I am delighted to present the 2019 Ervia Annual Report and Financial Statements. Once again this year we had a strong financial performance and we paid a dividend of €139.4 million to the Exchequer.

This year we invested €110 million in infrastructure on the gas network. This allowed us to connect new customers to the network, continue to expand the availability of Compressed Natural Gas stations as a transportation fuel and deliver programmes to improve the reliability and safety of the network.

We create economic benefit for our employees, shareholders, contractors, partners and investors. Some of the value created is retained in the organisation to maintain and replace assets. Detailed information on how Gas Networks Ireland created value for our stakeholders is laid out on pages 31-44 of this report. Irish Water's operational and financial performance in 2019 is outlined in the Irish Water 2019 Annual Report and Financial Statements which can be found at www.water.ie.

I welcome the publication of the Climate Action Plan 2019. We are fully committed to working with the Department of Housing, Planning and Local Government, the Department of Communications, Climate Action and Environment and the Commission for Regulation of Utilities to utilise the gas network to its full extent and ensure security of supply in the transition to a low carbon energy system.

We will continue to develop and deliver our capital investment plans to align with the policy initiatives laid out in Project Ireland 2040 and the National Development Plan 2018-2027. To this end we will maintain our ongoing engagement with customers, regulators, our shareholder and the public to understand the emerging needs as our country and economy develops.

In 2019 there was strong engagement with officials in Dublin, Brussels and London to ensure that Brexit will not cause disruption to Ireland's energy supply. I am confident that security of supply will be maintained through the transition period and beyond.

Corporate Governance

Across the year the Board continued to prioritise corporate governance in line with best practice, emerging regulation, government policy and transparency. 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. We will continue to govern Irish Water until separation and the establishment of two standalone, publicly owned, commercial, regulated utilities during 2023.

The Board continues to commit to ensure that Ervia's strategic objectives and operations are both sustainable and socially responsible. In 2019 Gas Networks Ireland published the first sustainability report "Sustainability in Action". It highlights progress made in implementing the principles of the UN's Sustainable Development Goals grouped under the three headings of environmental, social and economic impact.

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 my colleagues on the Board and the Executive Team for their ongoing commitment, passion and effective governance of the business in 2019. I welcome Niall Gleeson who took up the role of Managing Director of Irish Water in August 2019 and look forward to working with him. I also wish to recognise the contributions made by Mike Quinn who resigned from the Board in April 2019 and Peter Cross whose term of office expired in January 2020.

This year we progressed our Diversity and Inclusion agenda to promote a progressive workplace where all our employees can feel valued. As Chairman I recognise the enormous contribution and dedication of our staff and partners who work to provide the safe and secure supplies of gas that underpin our economy.

Tony Keohane
Chairman

As Chairman I recognise the enormous contribution and dedication of our staff and partners who work to provide the safe and secure supplies of gas that underpin our economy.

The Chief Executive Officer's Review

Cathal Marley
Group Chief Executive Officer (Interim)

A particular highlight for me this year was the publication of Vision 2050. This plan lays out how we can achieve a carbon neutral gas network by 2050. It will shape our future development and play a major role in decarbonising the energy system.

By 2050 half of the demand for gas can be met by renewable gas and hydrogen and the balance by natural gas which has had the carbon abated using Carbon Capture and Storage technology. In 2019 we signed a Memorandum of Understanding with global energy company, Equinor, to assess the potential for Ireland to benefit from Carbon Capture and Storage.

Creating Value for the People of Ireland

Our principal activity is the transportation of natural gas on behalf of over 705,000 business and residential gas customers regardless of which natural gas supply company they choose. We own, operate, build and maintain the natural gas network in Ireland. This includes 14,521 km of pipelines, including 2 sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man. We also provide wholesale telecom fibre services under the business name Aurora Telecom.

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, the Climate Action Plan 2019 and the Government's wider energy policy.

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.

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 page 13. Sometimes these trends 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 25-27.

In March 2020 the World Health Organisation upgraded the status of the COVID-19 outbreak from an epidemic to a pandemic. As a major employer and provider of essential services, the safety of our staff, partners and communities is paramount. Ervia has established a Crisis Management Team to manage our response to this global crisis. We will continue to monitor the rapidly changing situation and adapt our ways of working as necessary to maintain business continuity and staff resourcing to deliver critical services.

Performance in 2019

I am very pleased to say that we had an excellent safety performance in 2019. Our 'Work Safe Home Safe' programme promotes the right behaviours and drives our safety culture. It is supported by the necessary safety management systems.

In 2019 the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 76.5 TWh. This was supplied through the Moffat Interconnector and the Corrib and Kinsale Head gas fields. Natural gas represents 31% of Ireland's primary energy mix and generated 51% of Ireland's electricity in 2019. This varies across the year and across seasons. During 2019, 43% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field and 53% were met through UK imports, the remainder came from the Kinsale gas field.

In 2019 we:

- Invested €110 million in the gas and telecoms network infrastructure.
- Issued a five year €300 million bond on the Eurobond market at a coupon rate of 0.125% and a yield of 0.164%.
- Performed over 38,564 planned maintenance work orders.
- Completed construction of a publicly accessible capacity fast fill Compressed Natural Gas facility in Cashel.
- Injected renewable gas into the network for the first time at Ireland's only purpose-built injection facility in Cush, Co. Kildare.
- Investigated 15,822 public reports of escaped gas with an average response time of 27 minutes, 99.99% of which were within 1 hour.
- Completed the 315km extension of the Aurora Telecom fibre optic network from Dublin to Cork.
- Contracted over 9,672 new commercial and residential customers to the gas network which added 769GWh of new natural gas demand to the network.

2020 Strategic Priorities

We will create meaningful value for the people of Ireland by playing a key role in the transition to a low carbon energy system. This will involve completing the actions attributed to us in the Climate Action Plan 2019. We are:

- Progressing the implementation of a Green Gas Certification scheme and supporting the development of a renewable gas industry in Ireland.
- Developing a national network of Compressed Natural Gas refuelling stations and supporting low carbon transport.
- Assessing the feasibility of a Carbon Capture and Storage facility.
- Investigating the potential role for hydrogen in the decarbonisation of the network.

There is more information on our climate action initiatives on pages 35-39.

In 2018 the Government announced that Gas Networks Ireland and Irish Water would become two standalone, publicly owned, commercial, regulated utilities during 2023. We have worked closely with the Inter-Departmental Steering Group during the year. In 2020 we will commence addressing the legal, financial and operational arrangements required to stand up two independent utilities.

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 their support. 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. I am proud of the progress we have made in 2019 and look forward to the challenges ahead.

Cathal Marley
Chief Executive Officer (Interim)

Governance Structure

ervia

A commercial State body established under Gas Act 1976, (as amended).

A holding company with two principal operating subsidiaries, both of which are supported by central support services.

Gas Networks Ireland

Established under the Gas Regulation Act 2013.

Responsible for the ownership and operation of the gas network transmission and distribution systems.

Aurora Telecom is a carrier and enterprise service provider that operates a modern, carrier grade, backhaul dark fibre network.

Strategic Objectives

1. Business Delivery
2. Customer
3. Growth
4. Sustainability
5. People & Culture

Information relating to Gas Networks Ireland's performance in 2019 can be found on pages 31-44.

Uisce Éireann : Irish Water

The National Water Services Authority, a commercial State body, established under the Water Services Act 2013.

Responsible for the provision of collection systems and treatment of wastewater and the provision of water supplies, including water treatment facilities.

Strategic Objectives

1. Water
2. Wastewater
3. Customer
4. Sustainability
5. People & Culture

Information relating to Irish Water's performance in 2019 can be found in the Irish Water Annual report and Financial Statements at www.water.ie.

Material Issues

We work closely with our shareholder and stakeholders to understand and address the issues which are most important to them.

Security of Supply and Competitiveness

Develop, operate and maintain a gas network that is both economic and efficient to ensure security of supply and competitiveness during the transition to decarbonisation.

Climate Action

Play a strong role in the transition to a low carbon energy system and explore investment opportunities to reduce greenhouse gas emissions within the scope of our commercial mandate.

Capability

Facilitate Irish Water's growth as a utility. Develop the skills and capabilities within Irish Water and Gas Networks Ireland to allow them to become two stand-alone publicly owned, commercial, regulated utilities by 2023.

How Ervia and Gas Networks Ireland Create 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 infrastructure and services safely and efficiently.

Strategic Objectives

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

1	Organisation	Develop an organisation model appropriately structured and governed for the range and nature of businesses managed.
2	Climate Action in Energy Sector	Advocate and demonstrate how the gas network can play a central role in decarbonising Ireland's economy and realise the supporting national infrastructure to deliver a fully decarbonised network by 2050.
3	Financial Strength	Sustain a strong financial position and leverage this to access secure competitive funding to meet business needs and maximise shareholder value.
4	Sustainability	Be a leading green and sustainable Irish business by 2025.
5	Innovation	Investigate the potential of new infrastructure related business opportunities which address shareholder priority agenda items, with a focus on energy decarbonisation, and produce a commercial return.
6	People and Culture	Support a culture that engages, excites and empowers our people and business partners through a collaborative team environment we are proud of and that delivers safely to the citizens of Ireland.

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.

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.


GREEN POWER CNG
GREEN POWER CNG
IVECO
CNG 1
MECAR
STRALIS 330
CNG
HT22

Factors Influencing Value Creation

	THE CHALLENGE IS TO	THIS MEANS WE MUST	AND WE WILL CREATE VALUE BY
Security of Supply	Maintain economic competitiveness.	Provide a secure and reliable supply of gas.	Co-operating with stakeholders to prepare for Brexit and plan for contingencies on the network.
Climate Action	Reduce carbon emissions in Ireland by 30% by 2030.	Decarbonise the gas network.	Delivering the actions attributed under the Climate Action Plan 2019 and exploring a range of innovative solutions to transition to a low carbon economy (Vision 2050).
Customer	Deliver a customer experience that meets their needs.	Invest in IT platforms and digitise data.	Implementing robust systems to protect data and defend against cyber-attack while also enhancing customer service.
Economic Growth	Roll out the National Planning Framework and Project Ireland 2040.	Fund and manage large scale capital projects.	Enhancing capabilities and competences in major infrastructure projects.
Sustainability	Protect the environment, respect resources and value employees.	Become a leading green and sustainable business by 2025.	Operating a sustainable business enhancing biodiversity, minimising waste and supporting our people and communities.

Ervia's Business Model

How we create value

Inputs

Financial

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

	TOTAL ASSETS
Gas Networks Ireland	€2.7bn
Aurora Telecom	€24m

Networks

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

	KM OF NETWORKS
Gas Networks Ireland	14,521 km
Aurora Telecom	1,240 km

People and Partners

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

522 employees in Gas Networks Ireland

along with 574 employees in Central Services who also supply services to Irish Water

Stakeholders

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

Natural Resources

We work to protect our environment in the transition to a low carbon energy system.

transport **76.5** TWh of Natural Gas annually

Business Activities

Develop and Fund the Future Plans

- Business plan
- Investment priorities
- Climate Action

Continuously **Improve** our Offering

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

Serve our Customers Well

- Easy to work with
- New connections

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

Invest in Assets

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

Maintain our Asset Base

- System security
- Asset strategy
- Maintenance programmes

Operate the Systems

- Continuous quality supply
- Safety
- Grid control
- Respond to reports of gas leaks

Outputs

Efficient, cost effective customer centric services

Robust and resilient infrastructure

Benefits

Customers

- Serving over **705,000** gas customers
- Providing continuous, safe, high quality supplies
- Delivering increasingly efficient services

Employees

- Learning and Development
- Health and Wellbeing
- Diversity and Inclusion

Communities

- Protecting the environment and supporting biodiversity
- Climate Action
- Supporting local communities

Regulators

- Improving performance versus regulatory standards

Shareholder

- Dividends

Economy

- Enabling economic development
- Supporting employment
- Investing in infrastructure

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, communities, environmental groups, consumer groups, business interest groups, farming bodies etc.	Ensure safe, secure and reliable supplies of natural gas. Maintain competitiveness. Support social and economic growth.
Partners	Partners, third party service providers and suppliers.	Work effectively together to deliver quality services.
Regulators	Commission for Regulation of Utilities, Utility Regulator (Northern Ireland), Office of Gas and Electricity Markets.	Deliver initiatives to implement energy and climate policies. Continue to roll out the Business Plans including the delivery of the Capital Investment Plan. Operate efficiently and reduce costs.
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 and the development of the skills and capabilities within Irish Water to allow it to become a stand-alone publicly owned, commercial, regulated utility.

	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. Continue to operate efficiently. Provide infrastructure to facilitate economic growth.	●	●	●	●	●	●	●	●
	Hold frequent performance reviews and forward looking planning discussions with our service partners.	●	●	●	●	●	●	●	●
	Continue to roll out the Gas Networks Ireland Business Plan, including the delivery of actions attributed under the Climate Action Plan 2019. Invest in Compressed Natural Gas projects.		●			●			
	Develop and deliver business plans that are aligned with Government policies. Regular performance reports and updates are issued to monitoring and oversight bodies. Prepare for separation during 2023.	●	●	●	●	●	●	●	●

Delivering on Our Strategy

Vision 2050 – A Net Zero Carbon Gas Network for Ireland

Vision 2050 provides a strategy for the development of a carbon neutral gas network by 2050. It will deliver clean and flexible energy which will support emissions reduction. We will realise this vision by meeting half of the projected 2050 gas demand with renewable gas and hydrogen and the other half with abated natural gas.

As an energy source, natural gas is of key strategic importance to Ireland, representing 31% of the country's primary energy mix and powering approximately 55% of Ireland's electricity in 2019. While natural gas emits roughly one sixth of Ireland's emissions, delivering on Gas Networks Ireland's 'Vision 2050' plan will create a carbon neutral gas network and reduce Ireland's total carbon dioxide emissions by one third across key sectors including electricity, industry, heat, transport and agriculture. This will make a major contribution to getting Ireland back on track to meet its emission reduction and renewable energy targets.

Ireland's gas network is one of the most modern and safest gas networks in the world with no capacity constraints, it can be used to facilitate renewable energies including renewable gas and hydrogen.

Renewable gas is also referred to as biomethane, it is a clean, renewable and carbon neutral fuel. Its potential as a renewable fuel for heat, electricity and transport is well-recognised. It can replace heavily polluting fossil fuels such as coal, oil and peat and is a direct substitute for natural gas, without the need to invest in alternative infrastructure.

Compressed Natural Gas is particularly suitable for use in commercial vehicles. It is a proven alternative to diesel or petrol and reduces transport costs by up to 25% and carbon emissions by over a fifth. There are an estimated 25 million natural gas vehicles in operation worldwide, and almost two million in Europe. While heavy goods vehicles and buses account for only 4% of vehicles on Ireland's roads, they account for 30% of all emissions in the road transport sector.

Carbon capture and storage is a proven technology that captures up to 100% of the carbon dioxide emitted by major industries and electricity generators. Carbon Capture and Storage technology takes the carbon from the exhaust fumes created by natural gas when it is combusted. The process absorbs the carbon from the exhaust fumes before it leaves the power plant, meaning the electricity is carbon free. The captured carbon dioxide is then conditioned, compressed, transported and stored permanently and safely deep underground. Carbon Capture and Storage prevents emissions from entering the atmosphere and causing climate change. Zero-carbon power generation from gas with Carbon Capture and Storage abated gas has the advantage of being completely reliable, making it the ideal long term partner for wind and solar energy.

Hydrogen will play an important role in supporting our move towards a cleaner energy future. Similar to other gas network operators across Europe, we see the network as having a leading and enduring role in decarbonising Ireland's energy system. It will provide security of supply to complement intermittent renewables.

Hydrogen produces zero carbon dioxide emissions when combusted. Much like natural gas, hydrogen can be used for heating, transport, and power generation. Currently most hydrogen is produced by separating it out from methane. Hydrogen may also be produced by an entirely carbon free process called electrolysis. It involves using renewable electricity to split water into hydrogen and oxygen. The process is commonly referred to as Power to Gas. Electrolyser technology is developing rapidly, becoming larger scale and lower cost. Given the scale of the ambition for increased renewable energy generation for Ireland, this approach offers significant potential.

In 2020 we will continue to explore the potential of new technologies to facilitate renewable gas and hydrogen, assess whether Carbon Capture and Storage is feasible, as well as building more Compressed Natural Gas stations. To find out how Vision 2050 sets a clear pathway to a net carbon zero gas system by the year 2050 visit: www.gasnetworks.ie/vision2050

Gas Networks Ireland's first sustainability report, "Sustainability in Action", can be found at: www.gasnetworks.ie

Highlights

Vision 2050

In October 2019, we published Vision 2050, our statement on the leading role that the gas network will play in decarbonising Ireland's economy and society over the coming decades.

Irish Gas Forum

The inaugural Irish Gas Forum took place in October 2019 and was supported by Ervia and Gas Networks Ireland.

The focus of the forum was the need to move the policy debate towards the transition of Ireland's natural gas network to low carbon gas sources.

Carbon Capture and Storage

We signed a Memorandum of Understanding with global energy company, Equinor, on assessing the potential for Ireland to benefit from Carbon Capture and Storage, bringing Ireland to the centre of Europe's large-scale decarbonisation.

First step in decarbonising the gas network

Locally produced renewable gas was successfully injected into the gas network for the first time this year at Ireland's only purpose built injection facility in Cush, Co. Kildare.

The planning application for a second gas injection facility, in Mitchelstown, Co. Cork, has been submitted to Cork County Council. This large-scale central grid injection facility is part of Gas Networks Ireland's GRAZE (Green Renewable Agricultural and Zero Emissions) gas project.

First Sustainability Report

We published our first sustainability report, "Sustainability in Action", which highlights our progress in implementing the principles of the United Nations' Sustainable Development Goals across the business.

First carbon free bus journey

This year we trialled Ireland's first carbon neutral bus journey. Unlike diesel buses currently in operation, this bus runs on renewable gas, and has a zero carbon emissions footprint. We believe that the future of public transport in Ireland will be based on renewable gas, using waste from the agriculture and food industry.

Aurora's Regional Fibre Expansion

Aurora Telecom grew its network footprint by 315km to 1,240km in 2019, expanding from 8 to 15 counties, making it the terrestrial backhaul provider of choice connecting three major international subsea cables which landed on Irish shores over the past two years.

Our Centre of Excellence

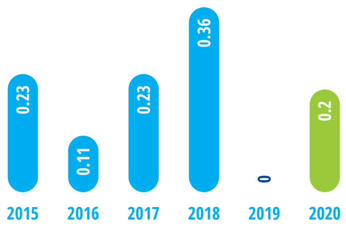
CCA Global, the professional body for leading brands in customer experience, recognised our Customer Service Team as a 'Centre of Excellence'.

Cleaner fuel option for commercial fleet

We constructed Ireland's second publicly-accessible, fast-fill Compressed Natural Gas station at Circle K's Cashel premises. Another seven public stations are in development.

Gas Networks Ireland Operating Performance

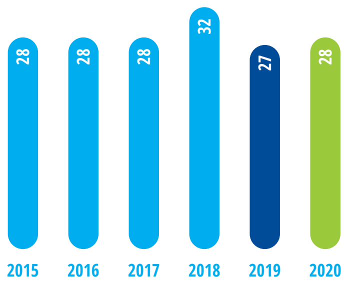
SAFETY
Total LTIFR – Employees
(>1 day)#/100k hours



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.

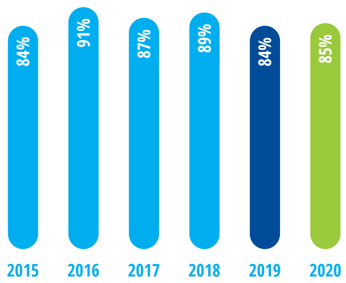
SAFETY
Average # mins to respond to
Public Reports of Escapes



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 2019 a 99.9% 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.

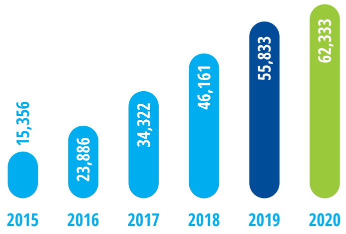
CUSTOMER SERVICE
First Contact
Resolution



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.

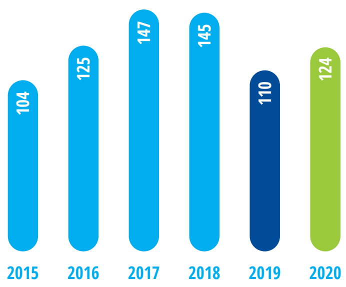
GROWTH
New Connections Cumulative
2014–2020



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

While we continue to see growth in new connections. The volume is primarily driven by industrial customers and businesses.

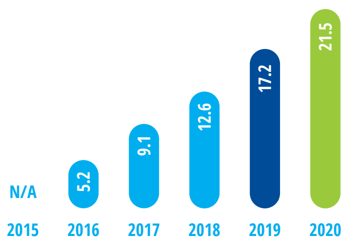
CAPITAL EXPENDITURE
Capex
€m



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.

CUMULATIVE OPERATING EFFICIENCIES
Opex Efficiencies
€m



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

We are targeting savings of €21.5m over the period 2016–2020.

Risk Management

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

Gas Networks Ireland 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 well established. It is consistent and clear across the organisation. Our priority is to understand the risk environment, identify the specific risks and assess the potential exposure.

Risk Management Framework

The Board has overall responsibility for risk management and the systems of internal control. A proactive risk management culture supports the overall organisational culture, values and the expected behaviours for the organisation. Appropriate governance structures have been further enhanced and integrated to ensure that there is clarity of ownership and responsibility for risk management. The risk appetite is set annually by the Board by determining the nature and extent of the risks we are willing to accept. Authority is delegated to the Audit and Risk Committee to support the Board with these obligations. They are supported in maintaining an effective risk management environment by functional and executive governance fora.

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 and integrated risk management framework and strong risk culture is essential to support the delivery of our strategic and operational objectives. The risk strategy and framework is continuously evolving. Proactive risk management 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, challenge and report risks.	Risk assessment is integral to strategic planning, investment prioritisation and project appraisal.	Functional and Executive Risk Committees support the Audit and Risk Committee.

Risk Management (continued)

Principal Risks and Uncertainties

#	RISK	CONTEXT	MITIGATION
Health, Safety and Environment			
1	A major health and safety or environmental incident resulting in significant impact and harm to an employee, contractor or the general public.	All health, safety and environmental 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. ▸ Certified to ISO14001 Environmental Management System. ▸ Internal and External assurance activity, audits and reviews.
2	Significant employee health risk or business disruption due to potential impact of epidemic/pandemic (current COVID-19 threat).	Large scale employee illness due to an epidemic or pandemic (current Covid-19 threat) that affects Ireland's population, leading to a potential impact on employee health, operations, service delivery and supply chain.	▸ Crisis Management Teams in place ▸ Engagement with key stakeholders (HSE, Government Departments etc.) ▸ Business continuity and contingency arrangements in place and being implemented/tested as situation evolves.
Network Security of Supply			
3	An event resulting in Gas Networks Ireland not being able to maintain sufficient gas supply to meet existing and future demand could result in reputational and financial damage.	Gas Networks Ireland are responsible for operating the Natural Gas pipeline network to ensure gas supply to the Republic of Ireland.	▸ Completed a 50km section of pipeline twinning the South West Scotland on-shore pipeline to improve security of supply. ▸ Comprehensive asset inspection and maintenance programmes. ▸ Network Development Plan and Capacity Management Plan publication.
Securing the Future - Decarbonisation and Climate Change			
4	Failure to successfully implement and deliver Gas Networks Ireland's long term growth strategy, a loss of competitiveness, the potential negative impact of legislation, an inability to meet the required decarbonisation obligations or a failure for Ervia to become a leading sustainable Irish business.	Decarbonisation of energy remains one of the biggest challenges facing Ireland. EU and Irish energy policies are targeting the long term reduction in fossil fuels, including natural gas (which is the cleanest fossil fuel) resulting in a risk of under-utilisation of the gas network and tariff increases.	▸ Continued development of the vision and strategy with the launch of "Vision 2050: Future Role of Gas" to ensure the gas network is put firmly in the centre of Irish climate change policy. ▸ Investment in sustainability initiatives and long term strategies including Compressed Natural Gas (CNG), Renewable Natural Gas and Carbon Capture and Storage (CCS).

#	RISK	CONTEXT	MITIGATION
Infrastructure and Service Delivery			
5	An inability to fully deliver current or future Capital Investment Plans due to limited supply chain capacity within the construction industry or a failure of a key supplier which could result in failure to meet network capacity or sustain asset health through planned maintenance activities.	Large capital programme agreed with the Commission for Regulation of Utilities (CRU) for Price Control 4 (2017-2022).	▸ Commission for Regulation of Utilities (CRU) Price Control engagement. ▸ Corporate plan set in context of allowance. ▸ Relationship management model. ▸ Demand planning and business planning. ▸ Internal supply chain expertise. ▸ Proactive supply chain interactions.
6	A cyber-attack causing serious loss of service, data leakage or restriction to information and/or operational technology would impact service delivery and infrastructure.	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 critical systems and contingency plans developed. ▸ Ongoing risk assessments, awareness training and external independent assurance reviews.
7	Potential for significant business disruption as a result of potential negative impacts arising from EU/UK Brexit trade deal negotiations.	Potentially impacted areas are supply chain, regulation, finance, data protection, all of which could result in a risk to operational delivery.	▸ Brexit Steering and Working Group established to prepare and implement contingency plans. ▸ Engagement with key stakeholders including Government Departments.
Our People			
8	Significant organisational transformation increases the risk of organisational stress.	To support the delivery of our business objectives, we need to have the right organisational structure and the right people and culture in place.	▸ Organisation Design Steering Group and a work force planning process are in place. ▸ Engagement and culture surveys together with ongoing continuous improvement processes in place. ▸ HR strategy is being implemented which includes initiatives such as diversity and inclusion programmes, agile working and employee development programmes.
Financial and Economic			
9	Our activities expose us to a number of global macroeconomic and financial risks - credit risk, funding and operational allowance model risk, liquidity risk, currency risk and interest rate risk.	Business Plans set out the funding and allowance requirements for the 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 2019

The Executive Team

Cathal Marley
Chief Executive Officer (Interim)

Ronan Galwey
Group Chief Financial Officer (Interim)

Dawn O'Driscoll
Group Strategic HR Director

Niall Gleeson
Deputy Chief Executive Officer
Managing Director of Irish Water

Denis O'Sullivan
Managing Director, Gas Networks Ireland

Orlaith Blaney
Chief Communications and Marketing Officer

Brendan Murphy
Group Commercial Regulatory Director

Claire Madden
Group Chief Legal Officer (Interim)

Michael G. O'Sullivan
Director, Business Services

Liam O'Riordan
Company Secretary

Financial Review

Ervia delivered a solid financial performance during 2019, enabling the delivery of capital investment of €110m in critical gas infrastructure.

Ervia made a dividend payment of €139m to the Exchequer during 2019, including a further special dividend of €85m relating to the sale of the Bord Gáis Energy business.

Gas Networks Ireland, an Ervia subsidiary, successfully issued a bond of €300m in 2019 on the Eurobond market at a coupon rate of 0.125% with a yield of 0.164%. This drew strong demand from high calibre national and international investors, reflecting positively on business performance, financial stability and the future outlook for the regulated utility.

Ronan Galwey
Group Chief Financial Officer (Interim)

Key Highlights 2019

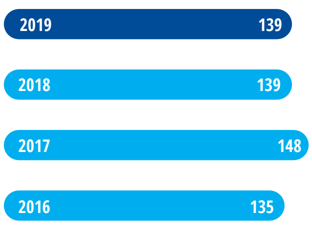
- Revenue **€470m**
- EBITDA **€281m**
- Profit before income tax **€123m**
- Capex **€110m**
- Dividends paid **€139m**
- Bond Issuance of **€300m**
- Net Debt of **€1,084m**

Financial Review (continued)

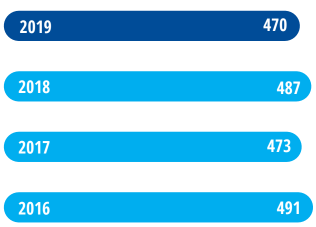
Summary Income Statement

	2019 €m	2018 €m
Revenue	**470**	487
Operating Costs	**(189)**	(192)
EBITDA	**281**	295
Depreciation and amortisation	**(136)**	(131)
Finance costs	**(21)**	(23)
Profit before income tax	**123**	141
Dividend paid to Exchequer	**139**	139

DIVIDENDS €m



REVENUE €m



Revenue

Revenue was €470m for the year to December 31st 2019, decreasing by €17m compared to 2018. This decrease was primarily due to lower gas tariffs arising from the over recovery of regulated revenues in 2017 and 2018.

Operating Costs

Operating costs of €189m decreased by €3m when compared to 2018. This decrease is primarily due to lower gas commodity costs to run the compressor stations and the continued delivery of operating cost efficiencies, partly offset by higher support function activity.

EBITDA

EBITDA of €281m for 2019 decreased by €14m compared to the 2018 figure of €295m, mainly due to lower revenue of €17m.

Depreciation

Depreciation and amortisation of €136m has increased compared to prior year primarily due to additional assets being placed in service.

Profit before Income Tax

Profit before tax decreased by €18m to €123m for 2019 due to:

- lower EBITDA performance of €14m
- higher depreciation charges of €5m arising from the increased investment in infrastructure
- partly offset by lower finance costs of €2m, primarily due to more favourable financing rates during 2019 compared to the prior year.

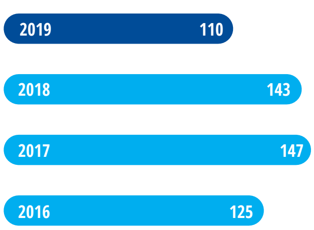
Dividends

A dividend of €139m was paid in 2019 in line with prior year.

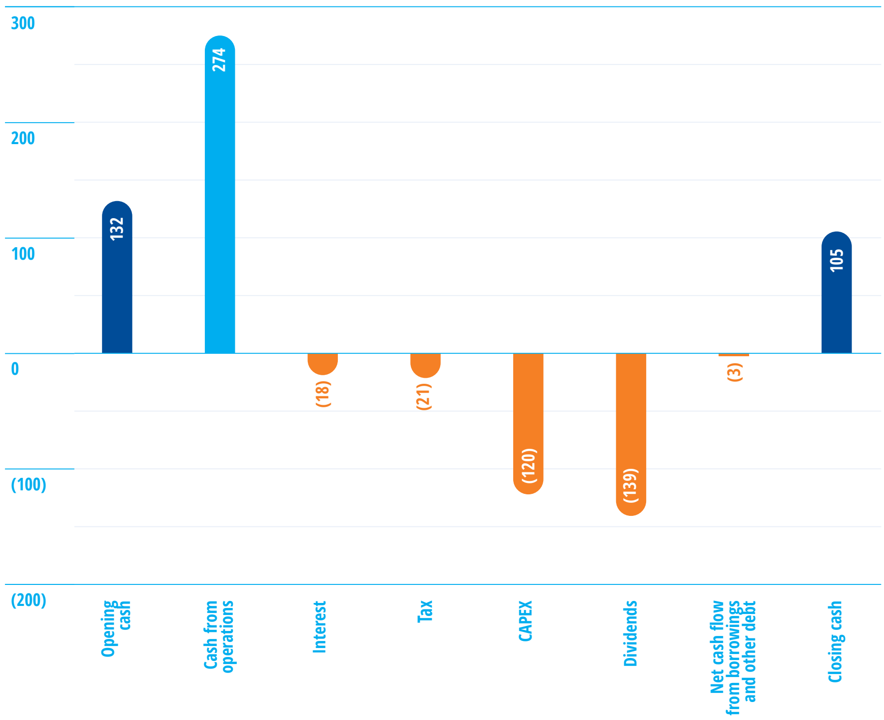
Summary Balance Sheet

	2019 €m	2018 €m
Infrastructure assets	**2,532**	2,538
Other assets	**243**	283
Total assets	**2,775**	2,821
Borrowings and other debt	**(1,204)**	(1,192)
Pension liability (IAS 19)	**(147)**	(98)
Other liabilities	**(451)**	(491)
Total liabilities	**(1,803)**	(1,781)
Net assets	**972**	1,040
Net debt	**(1,084)**	(1,036)

CAPEX €m



HOW CASH WAS USED IN 2019 €'m



Financial Review (continued)

Infrastructure Assets and Capital Expenditure

Ervia continued the delivery of scheduled capital investments with total investments of €110m between gas and telecoms infrastructure.

Net Debt and Cash Flows

- Net debt was €1,084m at December 31st 2019, compared to €1,036m in the prior year.
- Operating cash flows of €274m were primarily used to fund critical capex investments in gas infrastructure and fund the dividend payment to the exchequer.
- Capital expenditure in cash outlay terms was €120m.
- Ervia made a dividend payment to the Exchequer of €139m, including a €85m special dividend relating to the sale of the Bord Gáis Energy Business.

Net Pension Deficit

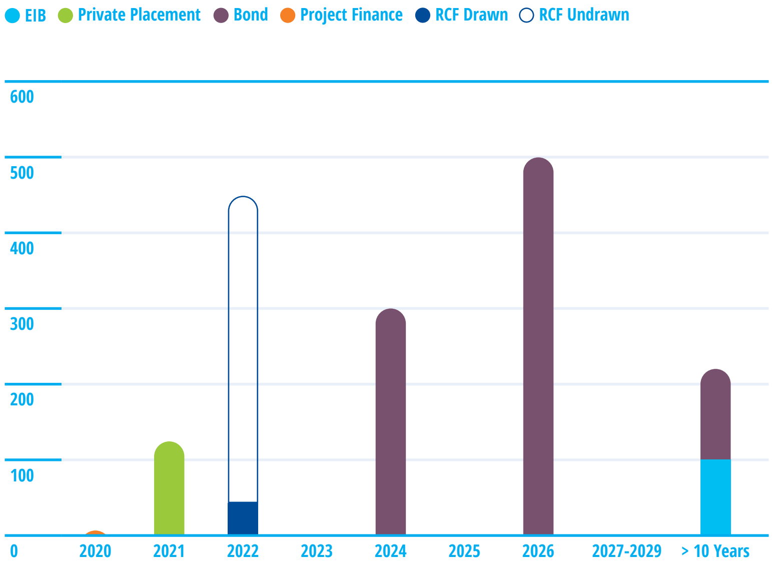
Ervia Group has an accounting pension deficit (IAS 19) of €147m as of December 31st 2019, an increase in deficit of €49m compared to 2018. In accordance with IAS 19 requirements, corporate bond yields are used as the basis to determine an appropriate discount rate to calculate the present value of long-term 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 decreased by 0.85% during the year, increasing the value of pension scheme liabilities. Refer to Financial Statements note 20.

Capital Resources and Treasury Governance

Capital Resources

Ervia had total borrowings and other debt of €1,204m at December 31st 2019 (€1,192m: December 31st 2018). There were undrawn facilities of €410m and €105m of cash and cash equivalents at December 31st 2019.

ERVIA DEBT MATURITY PROFILE €m



Ervia has a statutory borrowing limit of €3 billion, which sets the upper limit for drawn facilities. In 2019, Gas Networks Ireland, an Ervia subsidiary raised a 5 year €300 million bond on the Eurobond market at a coupon rate of 0.125% with a 0.164% yield. There was strong demand in the issuance from high calibre national and international investors with a final order book circa 3 times oversubscribed. Proceeds from the bond will fund the continuing investment in maintaining and upgrading the gas network infrastructure and general corporate purpose. The new financing lowers Gas Networks Ireland's average cost of borrowings and extends the average maturity of its borrowings. 88% of Gas Networks Ireland's debt (excluding lease liabilites) was at fixed rates at December 31st 2019 (62%: December 31st 2018).

The weighted average interest rate on Gas Networks Ireland's portfolio of outstanding borrowings excluding limited recourse borrowings was 1.2% (1.6%: December 31st 2018) and the average maturity of its debt was 7.2 years (5.95 years: December 31st 2018). In 2019, Gas Networks Ireland maintained its long term credit rating of A with Standard & Poor's and A3 with Moody's Investors Services.

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. 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 25.

Operating Review

Natural gas plays a critical role in providing a cleaner, competitive and secure energy supply for Ireland. Our challenge is to drive the evolution of Ireland's energy system and respond to the challenge of climate change while providing a safe and secure energy supply.

This year we published Vision 2050, our strategy for the development of the gas network. It plots a roadmap to a carbon neutral gas network, supporting emissions reductions across every sector of the Irish economy at the lowest cost possible. Realising Vision 2050 will allow Ireland to maintain the vital balance between sustainability, security and affordability. Our journey to a decarbonised network has already begun. We injected the first renewable gas on to the network in 2019.

Through our telecoms business, Aurora Telecom, we grew our backhaul dark fibre network footprint by over 300km in 2019, making it the terrestrial backhaul provider of choice.

This year the gas network delivered 31% of the country's primary energy needs and generated 51% of Ireland's electricity.

Denis O'Sullivan
Managing Director, Gas Networks Ireland

Overview

As an energy source, natural gas is of strategic importance to Ireland and facilitates job creation and economic growth.

Gas Networks Ireland owns and operates the natural gas network in Ireland. Our gas network is one of the most modern and safest in the world and comprises 14,521km of gas pipelines including two sub-sea interconnectors. 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 705,868 homes and businesses avail of a safe, efficient and secure supply of natural gas every day.

As an energy source, natural gas is of strategic importance to Ireland and facilitates job creation and economic growth. The gas network plays a critical role in Ireland's economy today, delivering 31% of the country's primary energy needs. On average 51% of Ireland's annual electricity is produced using natural gas.

It is planned that by 2030 70% of electricity will be produced from renewable sources. The system will continue to rely on natural gas-powered generation to provide the capacity to support the development of renewables in Ireland. Our strategy, Vision 2050, explains how we can achieve a carbon neutral gas network by 2050.

We also began realising our ambition to convert agricultural and food waste into a carbon-neutral source of energy. Locally produced renewable gas was successfully injected into the gas network for the first time at Ireland's only purpose-built injection facility in Cush, Co. Kildare. The planning application for a second gas injection facility, in Mitchelstown, Co. Cork, was submitted to Cork County Council and a decision is expected in early 2020.

Operating Environment

In 2019, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was 76.5 TWh. This was supplied through the Moffat Interconnector and the Corrib and Kinsale Head gas fields. This is an increase of 2.8% on 2019. During the year, 43% of all gas requirements in the Republic of Ireland were supplied by the Corrib gas field. UK imports met 53% of demand, with the remaining gas supplied from the storage at Kinsale Head gas fields. We expect the amount of gas that is supplied by Corrib to continue to fall in the coming years in line with projections.

Regulations and Tariffs

At an EU level, full implementation by Gas Networks Ireland of the EU Network Codes is nearing completion, with the remaining compliance matter to be delivered in 2020. The focus will now move to the next gas legislative package, which is expected to be delivered in 2020/21.

The primary output from the consultation on the EU Tariff Network Code regarding the harmonised transmission tariff structures for gas (2017/460) was the decision to continue with the current tariff setting methodology. The Commission for Regulation of Utilities also decided that from 1st October 2020 shrinkage gas costs will be recovered as part of the transmission tariff, rather than billed directly to shippers.

We achieved full compliance with the Balancing Network Code during 2019 when we introduced changes to the cashout regime, revised certain tolerances and delivered full systemisation of the Gormanston Interconnection Point.

We progressed the implementation of a Green Gas Certification scheme, which will ensure renewable gas can be certified. This is one of the actions attributed to us under the 2019 Climate Action Plan. We also finalised the market arrangements to facilitate the injection of renewable gas into the network.

We are continuing to liaise with the Commission for Regulation of Utilities and the Department of Communications, Climate Action and Environment regarding the Security of Gas Supply Regulations, which entered into force in November 2017.

Brexit

Based on extensive engagement with key stakeholders including National Grid, BEIS and Ofgem we anticipate no disruption to the daily processes which deliver gas from Great Britain to Ireland. We also do not anticipate any change to physical security of supply. Gas flows are expected to continue unaffected throughout the transitional period and beyond.

GNI (UK) Ltd

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.

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

Aurora Telecom owns and operates an extensive national backhaul fibre network. We supply high-speed fibre connectivity to carriers and telecom operators (fixed/wireless/mobile), wholesale providers, corporate and public sector customers. In 2019 we achieved best in class operational performance, with the most modern, lowest latency network in the country, coupled with high levels of network availability.

We further extended the ultra-high fibre network in Ireland in 2019, growing the network by over 300km. New urban nodes in Midleton, Dungarvan, Waterford, New Ross and Carlow were added, increasing connectivity in those areas.

Progress against Strategic Objectives in 2019

A number of key strategic objectives determined our business focus for 2019.

Business Delivery

Safety

Gas Networks Ireland is committed to the highest possible safety standards and during 2019 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.

We provide a best-in-class emergency response service. In 2019, we responded to 15,822 publicly-reported escapes of gas with an average response time of 27 minutes, and 99.99% compliance within one hour.

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

Operations

Our capital expenditure of €110 million included ongoing programmes to improve the safety and reliability of the network in 2019.

We delivered over 38,564 planned maintenance work orders on the transmission and distribution networks. Working with the connected system operator, we decommissioned the compressor station at Midleton, Co. Cork.

Key 2019 projects completed:

- A new pressure reduction station was constructed at Laughanstown.
- An above ground installation was extended at Belview in Waterford together with 6.7km of reinforcement to the distribution pipe work. This project improves the security of supply to Waterford city.
- We continue to work with the Gas Market Operator in Northern Ireland, improving commercial operations for all Northern Ireland gas shippers. Work at the Derryhale above ground installation in Northern Ireland facilitated the commissioning of the Gas to the West pipeline system. This brought gas to Dungannon, Coalisland, Omagh and Enniskillen.

Growth

The launch of Vision 2050 provides a strategy for the development of a carbon neutral gas network. It will deliver clean and flexible energy which will support emissions reductions across every sector of the Irish economy at the lowest cost possible. We will realise this vision by meeting half the projected 2050 gas demand with renewable gas and hydrogen and the other half with abated natural gas.

A fast fill Compressed Natural Gas station was constructed in Cashel Circle K Service station as part of the developing national network aimed at providing clean fuel to the Heavy Goods Vehicle sector.

We contracted 9,672 commercial and residential customers to the network during the year. This will add 769 GWh of new demand.

In August we successfully injected renewable gas into the network for the first time. The renewable gas entered the network at Ireland's only purpose-built injection facility in Cush, Co. Kildare. This represents the first step in Gas Networks Ireland's plan to roll out a network of renewable gas injection facilities across the country. The planning application for a second gas injection facility, in Mitchelstown, Co. Cork, has been submitted to Cork County Council. This large-scale central grid injection facility is part of our GRAZE (Green Renewable Agricultural and Zero Emissions) gas project.

We participate in a number of Irish and European gas fora and research initiatives, which are assessing how hydrogen could be transported using existing gas networks. We are also closely monitoring developments in the UK where hydrogen use in the gas network is being trialled by Northern Gas Networks.

In September, our parent company, Ervia, signed a Memorandum of Understanding with multinational energy company, Equinor, on assessing the potential for Ireland to benefit from Carbon Capture and Storage. The Cork Carbon Capture and Storage project was included on the European Commission's Project of Common Interest list. This enables us to apply for significant EU funding and support. The project is exploring whether the Kinsale gas field might be used as a potential store for carbon.

In 2020 we will continue to rollout more Compressed Natural Gas refuelling stations and explore new technologies to facilitate renewable gas and Carbon Capture and Storage.

Customer

We delivered high quality services to 705,868 domestic and commercial customers during 2019. There were

- 81,242 customer appointments made.
- 1.8 million meter reads.
- 537,000 customer contacts handled by our Contact Centre.

We met our customer satisfaction score targets across all activities surveyed and there has been a reduction of 24% in complaints made by our customers. We continue to be recognised by our peers. We won the Customer Experience Impact Award for CX impact in Utilities in Ireland.

We were also recognised as a Centre of Excellence by CCA Global, UK.

We helped customers manage their energy costs in 2019 by enabling supplier switching and by installing prepayment meters. These meters now constitute 16.8% of the total residential meter population. In 2019, we exchanged in excess of 24,665 meters under our domestic meter replacement programme. These meters are an important tool in the fight against energy poverty.

We facilitate the process of gas customers switching from one supplier to another. In 2019, there were ten competing retail suppliers active in the market. During the period from January 2019 to December 2019, over 128,500 gas customers changed supplier. Since the gas market opened to competition in 2004, over 1.1 million gas supplier switches have been completed.

Our People

During 2019, Gas Networks Ireland continued its commitment to developing the skills and competencies of staff, delivering a number of new training programmes. We completed the delivery of our 2015 Apprenticeship Programme, facilitated in partnership with SOLAS, which saw the first apprentices in almost 30 years complete the programme in Gas Networks Ireland. Over four years, they have received mentor-led training in plumbing, electrical instrumentation, mechanical automation and maintenance fitting. We continue to commit to engaging and supporting our staff. For more information on our commitment to our people please see page 42.

Sustainability

As guardians of Ireland's natural gas infrastructure, we aim to deliver our services in a sustainable manner that contributes to the protection of the environment while supporting the social and economic development of the communities we operate in, as well as the wider economy.

During 2019 we developed a framework to embed sustainability in our strategy and purpose. The framework is based on the UN's Sustainable Development Goals grouped under the three headings of environmental, social and economic impact. This year Gas Networks Ireland published our first sustainability report. "Sustainability in Action" highlights our progress in implementing the principles of these goals.

We are proud of to be one of the 34 companies in Ireland to hold the Business Working Responsibly mark. We are committed to ensuring that social responsibility is at the core of our business and key to our strategy. Gas Networks Ireland was awarded the "Special Merit Award" for CSR by Chambers Ireland at the 'inBUSINESS' Recognition Awards. We were delighted that our schools STEM programme 'Energize' was shortlisted for Community Initiative of the Year at the 2019 Utility Week Awards.

Our sustainability activities were nominated for a number of awards in 2019 including:

- Chambers Ireland corporate responsibility awards.
  - Excellence in Community – Community Programme.
  - Excellence in Workplace – Walking the Talk – A study of the impact of coaching while walking.
  - Excellence in Environment – Biodiversity Enhancement Programme.
- CSR Award at the it@cork Tech Leaders Awards.
- Best use of Digital Marketing for the greater good (CSR) at the Cork Chamber of Commerce Digital Awards.

Environmental impact

In 2019, we focused on the areas of waste, biodiversity and climate change. To embed this focus, we created bespoke environmental planning design toolkits and rolled out environmental guidance best practices throughout the organisation.

Gas Networks Ireland maintained certification to the international Environmental Management System standard ISO14001 and the Energy Management System ISO50001. We also increased our overall rate of recycling in our offices to 100% and implemented waste management awareness initiatives across the company.

Additionally, we committed to protecting biodiversity and signed up as a business supporter of the All-Ireland Pollinator Plan. We have supported a number of research projects with Irish academics aimed at supporting our understanding of Ireland's bio-diversity challenge.

We recognise that gas plays a key role in Ireland's energy mix and in decarbonising the energy sector. To help meet Ireland's emissions targets, we are exploring innovative technologies, such as Carbon Capture and Storage, to decarbonise the gas network.

Energy

We are an active participant in the Government's Public Sector Monitoring and Reporting initiative (PSMR). While the PSMR aims to achieve 33% energy savings for the public sector by 2020, Gas Networks Ireland are on track to exceed this ambition. We have already achieved energy savings of 45%. The energy savings are underpinned by metering and efficiency drives that are taking place at all office locations such as the replacement of inefficient lighting. We replaced older vehicle fleet with new and more efficient vehicles. Our fleet is managed more efficiently through enhanced inspection procedures and programmes to increase employee awareness of fuel efficiency.

As signatories of the Low Carbon Pledge, we are actively focussing on reducing our emissions through a number of initiatives. We:

- Implemented a travel policy aimed at reducing the carbon footprint associated with employee work related travel.
- Enhanced procurement processes to drive better sustainability practices through the entire supply chain.
- Established a Climate Action Working Group to help achieve our carbon reduction ambitions.
- Maintained the Energy Management Systems standard ISO50001:2011 and the Environmental Management System ISO14001:2015 certification.

Corporate Responsibility (continued)

Social impact - Gas Networks Ireland

In 2019, Gas Networks Ireland continued to be one of only 34 companies in Ireland to hold the Business Working Responsibly Mark standard, in line with ISO26000, from Business in the Community Ireland (BITCI). The Mark is the only independently audited standard for Corporate Responsibility and Sustainability practices in Ireland. As holders of the Mark, we are a member of the Leaders Group on Sustainability and co-chair of the Low Carbon Economy Group. We are committed to the Low Carbon Pledge to reduce greenhouse gas emissions by 50% by 2030.

We were the proud recipient of Chambers Ireland's Special Merit In Business Award for our Corporate Responsibility Programme.

In 2019 we entered into a new three-year partnership with Inner City Enterprise (ICE). Gas Networks Ireland employees formed a mentor panel to provide business advice to an ICE start up called the "Grow Dome Project". The Grow Dome Project is an award-winning social enterprise that installs grow domes on unused land, transforming them into a community resource.

In 2019 Gas Networks Ireland partnered with Age Action's Care and Repair Programme. As part of that partnership a donation of €2 was made towards Care and Repair for every Customer Satisfaction Survey completed. We donated a vehicle to be used to transport volunteers carrying out small repair jobs in the homes of older people in Cork. Separately during the summer over 40 employees volunteered their time and spent a day working in the gardens of older people in the Finglas area.

We continued with our award-winning STEM education programme, Energize, in partnership with Junior Achievement Ireland. The programme reached 5,195 6th class students nationwide, with the objective to foster students' interest in STEM subjects. Energize includes a module on carbon monoxide safety with 96% of students able to identify symptoms of carbon monoxide poisoning after taking part in the programme.

We also

- supported the 'Skills at Work' programme inspiring secondary school students to stay in school.
- participated in the 2nd class literacy programme 'Time to Read'.
- continued to support Co-operation Ireland's 'Cork Youth Leadership Programme'.
- partnered with the litter education programme 'Leave no Trace'.

	2019
Student Impact Hours	39,034
Staff Volunteer Hours	1,461
CSR Events	69

Our People

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. As an organisation we are committed to listening to our people in a number of ways. This includes engagement surveys, through our employee forums and a program of two-way leadership communications. We can take really positive steps to shape our culture, improve how we do things and how we support our people.

We aim to create an environment where all of our people find their role both personally and professionally rewarding.

> *We aim to create an environment where all of our people find their role both personally and professionally rewarding.*

In 2019 we launched the leadership principles, 6 commitments which leaders across the business have signed and display at their locations. We have focused on rolling out a comprehensive series of internal communications programmes such as leadership roadshows and open door initiatives. We do this to connect all our teams to the leadership and purpose of the organisation.

Under our Work Safe Home Safe programme we have a dedicated pillar focused on employee wellbeing. This year our wellbeing calendar of activity was based around the themes of Mind, Body and Life. The agile working programme was referenced by staff during the year as having a really meaningful impact on their work life balance. We also achieved the Ibec Keepwell mark in 2019.

This year we introduced the Ervia People Awards, an annual recognition awards ceremony. Staff had the opportunity to nominate people from across the organisation for one of the awards which included 'unsung hero' and 'exceptional citizen awards'. Our long service awards continue to be a fantastic way to recognise the commitment and pride within the organisation and this year's events saw a number of recipients recognised with 45 and 40 years' service, an incredible achievement!

iBelong, the Ervia Diversity and Inclusion programme was launched in November 2019. This followed the establishment of the Diversity and Inclusion Council and Working Groups earlier in the year. A full programme of activity to celebrate Diversity and Inclusion took place in November. The longer term strategy for the coming years is being developed by the council.

Safety

At Ervia we put safety at the heart of what we do. There was a total of 2 employee Lost Time Injuries (LTIs) in 2019. The incidents were of low severity and this represents excellent safety performance. However we will continue to strive to achieve zero injuries. The employee total Lost Time Injury Rate* (LTIR) was 0.12 and the reportable LTIR was 0.06.

Our Work Safe Home Safe programme continues to deliver measurable improvements to our safety performance, communications, leadership and culture. In 2019 we saw further improvements in our proactive safety indicators such as the number of hazard reports and the number of safety leadership conversations held.

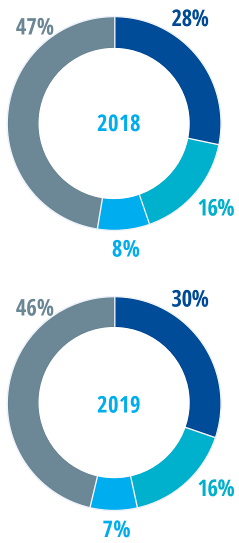
There was a total of 15 Contractor LTIs in 2019 against a total of 13 in 2018. In addition to LTIs, Ervia focuses on the potential for incidents or near miss event in order to identify those high potential incidents or events that under different circumstances, might easily have resulted in more serious outcomes. All high potential incidents and events are subject to detailed investigation to determine the root cause and to put preventative measures in place.

Over the course of 2019 Ervia has worked closely with our contractors to ensure they also focus on high potential events in order to prevent serious injury and to improve overall safety performance. This will remain a key area of focus for Ervia in the future.

Economic impact

Distribution of Value

- To employees as remuneration and other benefits
- Tax, local authority rates and regulatory levies
- Finance costs
- Distribution to shareholder



Our aim is to deliver an excellent, efficient and cost-effective service that benefits all customers.

Value Added Statement

We create economic benefit for our employees, shareholders, contractors, partners and investors. Some of the value created is retained in the organisation to maintain and replace assets.

Economic Benefit

To Shareholder €139m (dividend)	To Investors €22m (interest)	To Employees €93m (payroll)	To the State €49m (tax, rates and levies)	To suppliers €72m (goods and services)

Governance Report

The Board

Tony Keohane

(Chairman)

Appointed: July 5th 2016

Term: 5 years

Board Committees: Remuneration

Career: Alumni of INSEAD, expert in strategic development of businesses and organisations, 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.

Chris Banks

Appointed: July 5th 2016

Term: 5 years

Board Committees: Investment/Infrastructure, Project 23

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: January 10th 2020 (having previously been appointed July 5th 2016)

Term: 4 years

Board Committees: Investment/Infrastructure, 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, Fellow of the Irish Academy of Engineering, Chairman of National Children's Hospital Development Board.

Celine Fitzgerald

Appointed: January 10th 2020 (having previously been appointed on January 20th 2015)

Term: 5 years

Board Committees: 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 2019 (having previously been appointed on July 5th 2016)

Term: 4 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 of South Staffordshire plc, Owner of private infrastructure advisory business Lorraine House, Industry partner in AIP Asset Management, associate of OXERALLP.

Sean Hogan

Appointed: January 10th 2020 (having previously been appointed January 20th 2015)

Term: 4 years

Board Committees: Audit and Risk

Career: Chairman of Northern Ireland Water Limited from March 2011 – March 2015. Masters Degree in Organisational Management and Diploma in Company Direction.

External Appointments: Fellow of the Institute of Leadership and Management and of the Institute of Directors and sits on its Business and Environment Committee. Chairman of WRAS Ltd in the UK, Chairman of Newry Credit Union, Chair of expert advisory committee on bovine tuberculoosis of the Northern Ireland Department of Agriculture, Environment and Rural Affairs.

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, Investment/ Infrastructure

Career: Former Lord Mayor of Cork and former city councillor. Former General Secretary of SIPTU, Treasurer of the Irish Congress of Trade Unions and a member of its Executive Council.

External Appointments: Director of 2 SIPTU affiliated bodies; the Institute for the Development of Employment Advancement Services and the Larcon Centre. Member of the Executive Board of the International Transport Federation. Chairman of the One Cork Group and a member of the Cork Airport Development Council.

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.

This report outlines how Ervia has applied the principles and complied with the applicable provisions of the Code of Practice for the Governance of State Bodies ("the Code"). 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. 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. For details of the principal legislation under which Ervia and its subsidiaries (Gas Networks Ireland and Irish Water) 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 (Interim) and his Executive Team. The Chief Executive Officer (Interim) and Executive Team are required to implement the strategic direction set by the Board and to ensure the Board has a clear understanding of the key activities, decisions and performance results and of any significant risks likely to arise. The Chief Executive Officer (Interim) 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 52-53.

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. 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.
- Safety.

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 2019

Strategy	▸ Strategic Direction of Ervia and separation of Irish Water in 2023. ▸ Ongoing dialogue with Ervia's shareholder on strategic issues. ▸ Vision 2050
Safety	▸ Monthly 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	▸ Triennial and annual Board evaluation. ▸ Review of Board and Board Committee Terms of Reference. ▸ Monitoring compliance with the Code of Practice for the Governance of State Bodies. ▸ Appointment of Chief Executive Officer (Interim) of Ervia. ▸ Appointment of Irish Water Managing Director. ▸ Review of the Code of Business Conduct Anti-Fraud Policy, Protected Disclosures Policy and Anti-Bribery and Anti-Corruption Policy.
Finance	▸ Annual published results. ▸ Monthly trading results including performance versus budget and forecast. ▸ Annual budget. ▸ Quarterly re-forecasts. ▸ Dividends. ▸ Funding. ▸ Business Plans.

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 the prevention and detection of fraud and other irregularities.

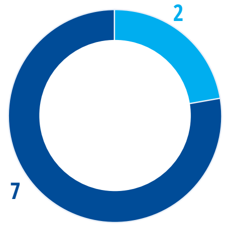
In preparing the Financial Statements, the Board is satisfied that:

- 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 2019 and for the year ended.

The Board

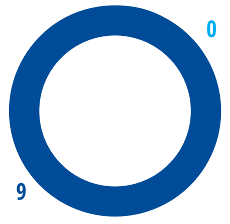
BOARD GENDER

● Men ● Women



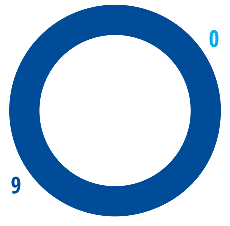
EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS

● Non-executive ● Executive



NON-EXECUTIVE BOARD MEMBER TENURE

● 3+ years ● 0-3 years



Board members are outlined on pages 46-47.

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

On appointment, Board Members are provided with detailed briefing documents covering governance, financial and operational information and an opportunity to be briefed by the Executive team on the different aspects of the business of the Group. 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. A declaration of any conflicts of interest is a standing item on the agenda for all Board and Committee meetings.

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 2019 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)	INVESTMENT/ INFRASTRUCTURE (ATTENDED/ ELIGIBLE)	PROJECT 23* (ATTENDED/ ELIGIBLE)
Tony Keohane (Board and Remuneration Committee Chairperson)	31,500	788	14/14	-	12/12	-	-
Joe O'Flynn	Note 1	-	12/14	-	-	-	1/3
Sean Hogan	15,750	2,583	12/14	5/5	-	-	2/2
Celine Fitzgerald (Project 23 Chairperson)	15,750	-	14/14	-	-	-	5/5
Mari Hurley	15,750	-	12/14	4/5	10/12	-	-
Finbarr Kennelly	15,750	-	14/14	5/5	12/12	-	-
Keith Harris (Audit and Risk Committee Chairperson)	15,750	2,091	13/14	3/5	12/12	-	1/3
Chris Banks	15,750	504	14/14	-	-	11/11	5/5
Fred Barry (Investment/ Infrastructure Chairman)	15,750	344	12/14	-	-	10/11	5/5
Peter Cross (retired 19th Jan 2020) Note 2	15,750	-	11/14	5/5	-	-	-
Mike Quinn (former CEO, resigned 5th April 2019)	Note 3	Nil	4/4	-	-	3/3	-

* The Single Public Utility Committee was amalgamated with the Project 23 Committee in July 2019. The Single Public Utility Committee met twice in 2019 prior to the amalgamation. There were no Project 23 Committee meetings in 2019 prior to the amalgamation. The combined committee met 3 times since the amalgamation.

Note 1 – Board fee waived on a discretionary basis.

Note 2 - Peter Cross retired from the Board on 19th January 2020 and was replaced as Chair of the Audit and Risk Committee by Keith Harris.

Note 3 – 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.

Report of the Board (continued)

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 Committees' collective performance.

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, and that of the Chairman.
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 were considered during 2019 and agreed actions implemented during the year.
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 (Interim).

Board Committees

The Board has an effective Committee structure in place to assist in the discharge of its responsibilities.

Four 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.

Audit and Risk Committee

Activities undertaken by the Audit and Risk Committee in 2019 are outlined in the Audit and Risk Committee Report on page 60. The Audit and Risk Committee held 5 meetings during the year.

Investment/Infrastructure Committee

The Investment/Infrastructure Committee's responsibilities are set out in its Terms of Reference, which is available at www.ervia.ie. The Investment/Infrastructure Committee held 11 meetings during the year.

Key activities undertaken by the Investment/Infrastructure Committee in 2019 include the review of:

- Capital project evaluation and investment planning approach.
- Updates on Major Projects and related cost estimates.
- All capital expenditure proposals in excess of €10m.
- Irish Water Capital Investment Plan.
- Upcoming tenders.
- Strategies including IT, electricity sourcing and fleet sourcing.
- Post project reviews.
- Updates on telemetry.

Remuneration Committee

The Remuneration Committee's responsibilities are set out in its Terms of Reference, which is available at www.ervia.ie. The Remuneration Committee held 12 meetings during the year.

Key activities undertaken by the Remuneration Committee in 2019 include:

- Review of the CEO's and other senior managers' performance for 2018.
- Review and consideration of Talent and Succession plans.
- Review of the Ervia pay model.
- Recruitment of the Ervia CEO.
- Recruitment of the Irish Water Managing Director.
- Set and review performance as per 2019 scorecards.
- Consideration of the results of the employee engagement survey.
- Annual review of executive pay.

- Review of Diversity and Inclusion initatives.

Project 23 Committee

The Project 23 Committee was established by the Board in August 2018 and merged with the former Single Public Utility Committee in July 2019 to oversee the separation of Irish Water as a standalone, publicly owned, commercial, regulated utility from the Ervia Group during 2023. Prior to the amalgamation of the Committee, the Single Public Utility Committee held two meetings during the year. The combined Committee held three meetings during the year.

Key activities undertaken by the Project 23 Committee in 2019 include:

- Review of draft separation plan.
- Stakeholder engagement.

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. 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.

	2019	2018
€50,000-€75,000	**392**	344
€75,001-€100,000	**237**	192
€100,001-€125,000	**98**	95
€125,001-€150,000	**50**	40
€150,001-€175,000	**29**	19
€175,001 and above	**28**	23

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 Irish Water, the related costs are included in the Irish Water disclosure only.

	2019 €'000	2018 €'000
Legal advice	**220**	357
Financial advice	**145**	790
Business improvement/development	**2,131**	1,107
Other	**268**	696
Total consultancy costs	**2,764**	2,950
Capitalised	**30**	229
Income statement	**2,734**	2,721
Total consultancy costs	**2,764**	2,950

Report of the Board (continued)

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.

	2019 €'000	2018 €'000
Legal fees and costs	**1,159**	529
Settlements	**781**	603
Total	**1,940**	1,132
Number of legal cases	**5**	6

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

Note 2: The number of cases relate 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:

	2019 €'000	2018 €'000
Domestic		
Board *	**20**	18
Employee	**2,950**	2,614
International		
Board	**-**	-
Employee	**264**	302
Total	**3,234**	2,934

* includes travel and subsistence of €6,309 paid directly to Board members in 2019 (2018: €7,250). The balance of €13,517 (2018: €10,744) 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:

	2019 €'000	2018 €'000
Staff hospitality	**230**	161
Client hospitality	**97**	84
Total	**327**	245

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 its 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, the Anti-Fraud Policy 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 2019, there were no protected disclosures reported. The protected disclosures made to Ervia in the year ended December 31st 2018 were investigated during 2019 in accordance with Ervia's Protected Disclosures Policy and all matters were fully addressed.
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 2019 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 2019. 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.

Model Publication Schemes

Section 8 of the Freedom of Information Act 2014 requires Ervia's subsidiary companies, Irish Water and Gas Networks Ireland, to 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 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 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.

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 and 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 2019 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 Chief Executive Officer (Interim) is the accountable executive with ultimate responsibility. The Chief Executive Officer (Interim) 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.

Risk and Control Environment

The Board has overall responsibility for ensuring that the Group has appropriate systems of internal control and risk management in place. A number of key structures are in place to provide effective systems of internal control and risk management and are outlined below.

Audit and Risk Committee

Ervia has an Audit and Risk Committee ("the ARC") comprising 4 non-executive Board members who have the necessary expertise 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.

The ARC provides oversight of the risk and control environment 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, which is 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 and internal audit functions.

Integrated Assurance Forum

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 Chief Financial Officer (Interim).

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 the Statement on the System of Internal Controls.

The Integrated Assurance framework further consolidates and co-ordinates in a structured manner all assurance activities in the organisation across the "Three Lines of Defence" model. This ensures that Ervia maximises risk and governance oversight and control to build organisational resilience and follows leading practice to meet all compliance obligations and governance requirements. The ARC is appraised of the results of the IAF on a quarterly basis.

Internal Audit

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 Chief Financial Officer (Interim).

The Internal Audit function provides a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's governance, risk management and internal control.

In particular the Internal Audit function:

- Evaluates risk exposure relating to the achievement of the Group's strategic objectives.
- Evaluates the systems established to ensure compliance with policies, plans, procedures, laws and regulations.
- Evaluates the means of safeguarding assets.
- Monitors and evaluates the effectiveness of the Group's risk management processes.
- Performs advisory services related to governance, risk management and control as appropriate.

Risk Management Function

Ervia 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 Chief Financial Officer (Interim) 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 the 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.

Elements of Control Environment

In addition to the key structures referred to above 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.
- Established processes to identify and evaluate business risks by identifying the nature, extent and financial implication of risks facing the Group including the extent and categories which it regards as acceptable. Other processes to identify and evaluate business risks include assessing the likelihood of identified risks occurring and assessing the Group's ability to manage and mitigate the risks that do occur through associated mitigation plans and strategies.
- Clearly defined organisational structure, with defined authorisation limits and reporting mechanisms to higher levels of management and to the Board.
- A comprehensive budgeting system 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.
- Appropriate segregation of duties and documentation of processes and controls that are focused on preventing and detecting fraud.
- 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 (Interim) 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. During 2019 an initiative was launched across the Group to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation. A number of ethics related policies including the Code of Business Conduct, the Anti-Fraud Policy and Anti-Bribery and Anti-Corruption Policy were updated and approved by the Ervia Board. The initiative will continue in 2020.
- A Corporate Governance Framework, including financial control and risk assessment. This is monitored by management and by the Internal Audit and Risk Management functions.
- Systematic reviews of internal financial and operational controls by internal audit and risk management. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment.
- An 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 the assurance activities of Risk, Internal and External Audit.

There were no material issues highlighted in our internal control environment in 2019.

Ongoing Monitoring and Review

Formal procedures have been established for monitoring control processes. Control deficiencies are communicated to those responsible for taking corrective action and to management and the Board, where relevant, in a timely way. 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 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.

Report of the Board (continued)

- 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 (Interim) 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 reports on Business Unit assurance over the system of internal control.

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

Procurement

Robust and effective systems are in place to ensure compliance, as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code.

The Ervia Procurement Policy (PD02) details the procedures to be followed by the Group to support procurement requirements in the organisation. Application of PD02 ensures that value for money is obtained in procurement practices, EU and Irish laws relating to public procurement are adhered to, tender processes are appropriately managed and governance and management oversight of the procurement process is maintained across the Group.

The Ervia Financial Authorisation and Contract Approvals Policy (PD03) sets out the financial expenditure governance framework to be applied for capital and operating expenditure. All expenditure approvals must comply with the requirements of the Ervia Governance Framework and PD03.

Internal staff training is provided across the Group on the application of both PD02 and PD03.

In addition to national and EU procurement requirements, capital expenditure must have regard to compliance with any requirements that may be set by the CRU, environmental and planning related requirements and infrastructural priorities. Appropriate investment appraisal methods are used in respect of capital projects and capital programmes in order to facilitate effective decision making. Capital projects are assessed and completed in line with a 5 stage process.

The capital commitments process for Ervia, Irish Water and Gas Networks Ireland operates on the basis that each company requests the relevant Ministerial consents in advance for an overall envelope of capital commitments to be entered into by each company during the following financial year.

Contracts with a value in excess of €3.5m are presented to the Group Contracts Approval Committee for detailed review and approval. All capital expenditure greater than €10m is approved by the Ervia Board and the relevant subsidiary Board.

Separate Ministerial consents are requested by Gas Networks Ireland in advance of committing to any individual capital project costing €20m or greater for regulated expenditure and €10m or greater for unregulated expenditure. Ministerial consents are requested by Irish Water in advance of committing to any individual capital project costing €20m or greater. Ministerial consents are submitted to the parent Department (the Department of Housing, Planning and Local Government ('DHPLG')) and other relevant government departments involved in the consenting process for the specific application. In addition, requests for ministerial approval are submitted to NewERA who provide project specific financial and commercial advice to DHPLG, prior to the granting of Ministerial consent.

The Board is kept appraised of the status of capital projects and programmes as they progress including updates on implementation against plan, timescales and quality. Budget and variance reporting is also presented to the Board. All projects have specific objectives against which they are measured. Tenders and subsequent contracts include KPIs which are used to measure performance throughout the course of the project. Post project reviews and financial close reports are presented to the subsidiary Boards, the Ervia Investment/Infrastructure Committee and the Ervia Board for evaluation. Project close out meetings facilitate a 'lessons learned' approach which are then applied to existing and future projects across the organisation.

The Group is currently reviewing its capital expenditure approval process to ensure it aligns with the guidance in the updated Public Spending Code, as published by the Department of Public Expenditure and Reform in December 2019, effective from 1 January 2020. As part of this analysis, potential enhancements to the existing capital project planning, execution and completion phases will be identified to further align with the value for money requirements for the evaluation, planning and management of public investment projects for Ireland.

General Data Protection Regulation (GDPR)

The Ervia Group Data Protection Officer has not raised any areas of significant concern regarding non-compliance with legislative requirements under GDPR.

Review of Effectiveness

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 2019 and will ensure a similar review is performed for 2020. A detailed review was performed by the ARC.

Internal Control Reporting

Irish Water continues to manage a large number of assets with an ageing infrastructure that require 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 during 2019. Irish Water worked with its Local Authority partners under the existing Service Level Agreements to deliver water services. It also continued to progress plans to transform the service to a modern public utility. Throughout 2019 engagement continued through the Workplace Relations Commission ('WRC') with a number of parties including Irish Water, Local Authority management, DHPLG and various trade unions who represent Local Authority Water Services staff. Following the Minister's letter to the Joint Oireachtas Committee in July 2019 on a possible future referendum on the public ownership of water services, further engagement on this issue continued to the end of 2019, facilitated via the WRC. It is anticipated that there will be further meetings in 2020. 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 in 2019, it should be noted, Irish Water continues to rely on certain controls operated by Local Authorities on its behalf.

No material weaknesses in the internal control environment were identified during the course of conducting the internal audits completed in 2019 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 ARC.

Conclusion

Risk Management

The Board carried out a robust assessment of the principal risks facing the organisation throughout 2019. These risks and mitigating controls or actions are set out on pages 26-27.

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 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 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.

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 Review on pages 35-44.

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 Gasworks Road, Cork.

External Auditor

Following the completion of a tender process, ministerial consent was received on March 25th 2019 to appoint Deloitte Ireland LLP as external auditors to the Ervia 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

Keith Harris

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 2019.

Keith Harris
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 an insight into 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, in order to discharge its duties effectively, it has pursued a full agenda of reviews in its meetings throughout the year. In fulfilling his key oversight responsibilities the Chairman of the Committee meets separately with senior management, internal audit, risk management and the Group's statutory auditor on a regular basis.

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 four 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 51. 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 preparation of the Group's Financial Statements 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 also reviewed the financial statements of Gas Networks Ireland and Irish Water, prior to their approval by the relevant subsidiary board. The Committee considered, and discussed with the Chief Executive Officer (Interim), Chief Financial Officer (Interim) and the external auditor, the appropriateness of the significant accounting standards and policies, estimates and judgements applied in preparing these financial statements, together with the clarity and completeness of the disclosures in the Annual Report and Financial Statements.

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 reviewed presentations on a selection of principal risks and discussed with senior management the material internal controls that exist to mitigate these risks.

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 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 Chief Financial Officer (Interim), 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 2019 the Committee reviewed the plans and work undertaken throughout the year by Internal Audit and the consequent 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 2020, including the resources required, and considered the alignment of internal audit focus and key risk areas for the Group.

During 2019 an initiative was launched across the Ervia Group to promote the integrity value and to emphasise the importance of ethical behaviour. As part of the initiative, the Anti-Fraud Framework was reviewed to identify opportunities to increase awareness across the organisation and the suite of ethics related corporate policies were updated and recommended by the Committee for approval by the Ervia Board.

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. Following completion of a tender process during 2018/2019, Ministerial consent was received on 25 March 2019 to appoint Deloitte Ireland LLP as external auditor for the Ervia Group for the years 2019, 2020 and 2021.

The Committee takes appropriate steps to ensure that an objective and professional relationship is maintained with the external auditor. During the year 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. The Committee is satisfied that Deloitte Ireland LLP 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.

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 and Risk Committee Effectiveness

The Committee completes an annual review of its own effectiveness. For 2019, the review was conducted internally through the completion of self-evaluation questionnaires and the overall review was satisfactory.

I would like to acknowledge the contibution of Peter Cross, the previous Chairman of the Audit and Risk Committee, whose term of office expired in January 2020.

On behalf of the Audit and Risk Committee:

Keith Harris

Chairman, Audit and Risk Committee
31st March 2020

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 company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the group and parent company as at 31 December 2019 and of the profit of the group and parent company for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, 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 29, including a summary of significant accounting policies as set out in note 1(f).

the Parent company 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 17.

The relevant financial reporting framework that has been applied in the preparation of the Group and Parent company financial statements is International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

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 company 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 the Group or Parent company'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 company'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 company 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 company'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 company'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 company'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 company 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.

Kevin Sheehan

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Date: 31st March 2020

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 2019)

	NOTES	2019 €'000	2018 €'000
Continuing operations			
Revenue	3	469,863	487,183
Operating costs (excluding depreciation and amortisation (net))	4	(188,795)	(192,470)
Operating profit before depreciation and amortisation (EBITDA)		**281,068**	**294,713**
Depreciation and amortisation	7	(136,361)	(131,067)
Operating profit		**144,707**	**163,646**
Finance income[1]	8	1,572	1,397
Finance costs[1]	8	(22,842)	(24,043)
Net finance costs	8	(21,270)	(22,646)
Profit before income tax		**123,437**	**141,000**
Income tax expense[1]	9	(18,160)	(18,950)
Profit for the year		**105,277**	**122,050**
Profit attributable to:			
Owners of the Parent		105,277	122,050
Profit for the year		**105,277**	**122,050**

[1]2018 disclosures have been represented to show comparatives consistent with 2019 disclosures - refer to note 1(b).

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

31st March 2020
Date of Approval

Note:
As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Statement of Other Comprehensive Income

for the year ended 31 December 2019

	NOTES	2019 €'000	2018 €'000
Profit for the year		105,277	122,050
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial (losses)/gains	20	(43,196)	39,147
Deferred tax income/(expenses) relating to defined benefit obligations	9	5,400	(4,893)
Total items that will not be reclassified to profit or loss		**(37,796)**	**34,254**
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		2,448	(418)
Fair value gains on cash flow hedges		1,003	917
Deferred tax on cash flow hedge movement	9	(125)	(115)
Total items that may be reclassified subsequently to profit or loss		**3,326**	**384**
Total other comprehensive (expenses)/income for the year, net of income tax		**(34,470)**	**34,638**
Total comprehensive income for the year		**70,807**	**156,688**
Total comprehensive income attributable to:			
Owners of the Parent		70,807	156,688
Total comprehensive income for the year		**70,807**	**156,688**

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

31st March 2020
Date of Approval

Note:
As described in note 27, the financial statements of Irish Water are not consolidated with the results of the Group.

Group Balance Sheet

as at 31 December 2019

	NOTES	31-DEC-19 €'000	31-DEC-18 €'000
Assets			
Non-current assets			
Property, plant and equipment	10	2,508,976	2,516,656
Intangible assets	12	22,976	21,614
Derivative financial instruments	25	16,263	13,242
Total non-current assets		**2,548,215**	**2,551,512**
Current assets			
Trade and other receivables	14	100,233	97,458
Cash and cash equivalents	15	105,086	131,826
Restricted deposits	16	17,717	26,700
Derivative financial instruments	25	764	12,172
Inventories	13	2,578	1,675
Total current assets		**226,378**	**269,831**
Total assets		**2,774,593**	**2,821,343**
Equity and liabilities			
Equity			
Retained earnings		(969,263)	(1,041,186)
Translation reserve		(3,121)	(673)
Cash flow hedge reserve		503	1,381
Total equity attributable to equity holders of the Parent		**(971,881)**	**(1,040,478)**
Liabilities			
Non-current liabilities			
Borrowings and other debt	18	(1,161,545)	(745,127)
Retirement benefit obligations	20	(147,476)	(98,381)
Deferred revenue	21	(8,723)	(9,716)
Government grants	22	(76,660)	(81,554)
Provisions	23	(6,245)	(7,201)
Trade and other payables	24	(14,603)	(6,916)
Derivative financial instruments	25	(447)	(3,957)
Deferred tax liabilities	9	(188,013)	(196,130)
Total non-current liabilities		**(1,603,712)**	**(1,148,982)**
Current liabilities			
Borrowings and other debt	18	(42,689)	(446,699)
Deferred revenue	21	(10,069)	(8,391)
Government grants	22	(6,546)	(6,458)
Provisions	23	(4,776)	(5,758)
Derivative financial instruments	25	(2,764)	(26)
Trade and other payables	24	(128,833)	(162,049)
Current tax liabilities	9	(3,323)	(2,502)
Total current liabilities		**(199,000)**	**(631,883)**
Total liabilities		**(1,802,712)**	**(1,780,865)**
Total equity and liabilities		**(2,774,593)**	**(2,821,343)**

For and on behalf of the Board:

Tony Keohane	**Keith Harris**	31st March 2020
Chairman	Member of the Board	Date of Approval

Note:
As described in note 27, 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 2019

	RETAINED EARNINGS €'000	TRANSLATION RESERVE €'000	CASH FLOW HEDGE RESERVE €'000	TOTAL €'000
Balance at 1 January 2018	(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 19)	144,189	-	-	144,189
Balance at 31 December 2018	**(1,041,186)**	**(673)**	**1,381**	**(1,040,478)**
Profit for the year	(105,277)	-	-	(105,277)
Other comprehensive expense/(income) for the year, net of income tax	37,796	(2,448)	(878)	34,470
Total comprehensive income for the year	**(67,481)**	**(2,448)**	**(878)**	**(70,807)**
Dividends (note 19)	139,404	-	-	139,404
Balance at 31 December 2019	**(969,263)**	**(3,121)**	**503**	**(971,881)**

All attributable to equity holders of the Parent.

Note:
As described in note 27, 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 2019

	NOTES	2019 €'000	2018 €'000
Net cash from operating activities	17	**235,372**	**301,807**
Cash flows from investing activities			
Receipt relating to the sale of Energy division		-	20,172
Payments for property, plant and equipment		(110,337)	(121,602)
Payments for intangible assets		(10,105)	(5,494)
Grants received	22	631	9,256
Net cash used in investing activities		**(119,811)**	**(97,668)**
Cash flows from financing activities			
Redemption of promissory notes		-	(6,874)
Proceeds from borrowings		652,823	99,662
Repayment of borrowings		(655,125)	(102,249)
Repayment of lease liabilities	11	(993)	-
Dividends paid	19	(139,404)	(139,089)
Net cash used in financing activities		**(142,699)**	**(148,550)**
Net (decrease)/increase in cash and cash equivalents	15	**(27,138)**	**55,589**
Cash and cash equivalents at 1 January	15	131,826	76,226
Effect of exchange rate fluctuations on cash held	15	398	11
Cash and cash equivalents at 31 December	15	**105,086**	**131,826**

Note:
As described in note 27, 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 27, 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 2019. These financial statements are prepared on a historical cost basis, except for certain derivative financial instruments 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 betweeen market participants at the measurement date.

The Group's significant accounting policies are set out below. These policies have been consistently applied to all years presented in these financial statements with the exception of adoption of new standards as set out in note 1 (c). 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 1 (g) of this note for details of the most significant accounting judgements and estimates applied.

The Board considers it appropriate to prepare the financial statements on a going concern basis, following due consideration of relevant factors, including available financial resources and cash flow forecasts. The going concern basis presumes that the Group and Parent has adequate resources to remain in operation, and that the Board intend it to do so, for at least one year from the date the financial statements are signed. Further details on the the Group's funding and liquidity position are set out in note 25 (ii).

(b) Restatement of Comparative Information - Exceptional items (including certain remeasurements)

Previously, the Group presented unrealised fair value movements ("certain remeasurements") on derivative and other financial instruments in a separate "Exceptional" column in the Group Income Statement. The Group has elected to discontinue this policy for the 2019 Financial Statements, having regard to materiality (€0.2m gain in 2019 and €1.3m gain 2018). The 2018 disclosures have been represented to be consistent with 2019 disclosures. Refer to note 8 for further details on certain remeasurements.

(c) New IFRS accounting standards effective for the year ended 31 December 2019

In the current year, the Group and the Parent applied IFRS 16 Leases (as issued by the IASB in January 2016) which is effective for an annual period that begins on or after 1 January 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requirements and requiring the recognition of a right of use asset and a lease liability at commencement for all leases, except for short-term leases and low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in section 1 (f).

The date of initial application of IFRS 16 for the Group and the Parent is 1 January 2019.

The Group and the Parent has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group and the Parent to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives which continue to be presented under IAS 17 and IFRIC 4.

The impact of adoption of IFRS 16 on the Group and Parent's financial statements is described in 1 (e).

The Group has also adopted the following amendments to standards, which have had no material impact on the Group's results or financial statement disclosure:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

1. Statement of Accounting Policies (continued)

(d) New IFRS accounting standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- IFRS 17 Insurance Contracts
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

It is anticipated that application of the remaining IFRS amendments and annual improvements, in issue at 31 December 2019 but not yet effective, will not have a significant impact on the Group's financial statements.

(e)Impact of adoption of IFRS 16 Leases

(i) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continues to be applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance as set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or lessee in the lease contract). In preparation for the first time adoption of IFRS 16, the Group carried out an implementation project. The project has identified that the new definition in IFRS 16 did not change the scope of contracts that meet the definition of a lease for the Group.

(ii) Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating lease under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group;

a) Recognises right of use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments,

b) Recognises depreciation of right of use assets and interest on lease liabilities in the income statement, and

c) Separates the total amount of cash paid into the principal portion (presented within financial activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right of use asset, whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36. This replaces the previous requirement to recognise a provision of onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low value assets, the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS 16. This expense is presented within rent, rates and facilities in the income statement.

In addition to the practical expedient not to reassess whether a contract contains a lease on transition to IFRS 16, the only other transitional practical expedient adopted by the Group was the option to exclude initial direct costs from the measurement of the right of use asset at the date of initial application.

1. Statement of Accounting Policies (continued)

(iii) Impact on Lessor Accounting

IFRS 16 does not change how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of lease differently.

(iv) Financial impact of initial application of IFRS 16

Group as Lessee

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 2.2%.

The following table shows a reconciliation of the operating lease commitment previously disclosed applying IAS 17 at 31 December 2018 discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at the date of initial application.

Lease liability recognised under IFRS 16 at 1 January 2019

	ERVIA GROUP[1] €'000	ERVIA PARENT[2] €'000
Operating lease commitment at 31 December 2018 under IAS 17	16,295	11,800
Short term leases and low value leases	-	-
Effect of discounting the above amounts	(2,488)	(1,511)
Present value of lease payments covered by extension options not previously included in operating lease commitments	237	-
Lease liability recognised under IFRS 16 at 1 January 2019	**14,044**	**10,289**

The Group and Parent recognised €15.531m and €10.373m of right of use assets respectively under IFRS 16 at 1 January 2019, analysed as follows:

Right of Use Assets recognised under IFRS 16 at 1 January 2019

	ERVIA GROUP1 €'000	ERVIA PARENT2 €'000
Lease liability recognised under IFRS 16 at 1 January 2019	14,044	10,289
Lease prepayment at 31 December 2018 under IAS 17	1,487	84
Right of Use Assets recognised under IFRS 16 at 1 January 2019	**15,531**	**10,373**

[1]The difference to be recognised in retained earnings between the right of use asset recognised of €15.531m, the lease liability recognised of €14.044m and the lease prepayment de-recognised of €1.487m is nil.

[2]The difference to be recognised in retained earnings between the right of use asset recognised of €10.373m, the lease liability recognised of €10.289m and the lease prepayment de-recognised of €0.084m is nil.

Group as Lessor

No transition adjustments.

(f) 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.

1. Statement of Accounting Policies (continued)

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.

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.

1. Statement of Accounting Policies (continued)

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.

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.

1. Statement of Accounting Policies (continued)

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.

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 IFRS 16 (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 subsequent years' regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

1. Statement of Accounting Policies (continued)

(vii) Leases

IFRS 16 was effective from 1 January 2019. As explained in note 1(c), the standard has been applied retrospectively with the cumulative effect and therefore the policy set out below is only relevant to the current year. The impact of adoption is disclosed in note 1(e).

The Group as Lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except short-term leases (defined as a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Group recognises the lease payments as an operating expenses on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

Lease payments included in this measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable,
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date,
- The amount expected to be payable by the lessee under residual value guarantees,
- The exercise price of purchase options, if the lessee is reasonable certain to exercise the options, and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within borrowings and other debt in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever;

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the period presented.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day (less any lease incentives already received) and any initial direct costs.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right of use asset, unless these costs are incurred to produce inventories.

Right of use assets are subsequently measured at cost lease accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Group expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented within 'Property, plant and equipment' in the balance sheet.

1. Statement of Accounting Policies (continued)

The Group applies IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in section (iv) above.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments would be recognised as an expense in the period in which the event or condition that triggers those payments occurs and would be included in the appropriate line in operating expenses in the income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The Group as Lessor

Leases for which the Group is the lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

The Group enters into lease agreements as a lessor with respect to some of its pipelines, these leases are classified as operating leases . Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefit from the leased assets are consumed. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.\

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Policies applicable prior to 1 January 2019

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 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 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.

1. Statement of Accounting Policies (continued)

(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, inflation and currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value at the reporting date.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and inflation-linked interest rate swaps. Further details of derivative financial instruments are disclosed in note 25.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

1. Statement of Accounting Policies (continued)

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time are immediately reclassified to profit or loss.

(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.

1. Statement of Accounting Policies (continued)

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.

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.

Amounts due from subsidiary companies (Parent)

Amounts due from subsidiary company undertakings are non-derivative financial assets or liabilities which are not quoted in an active market. They are included in current assets or current liabilities on the balance sheet, except for those with maturities greater than twelve months after the balance sheet date, which are included in non-current assets or non-current liabilities. Amounts due from subsidiary companies are included within trade and other receivables or trade and other payables in the Parent balance sheet and are initially recorded at fair value and thereafter at amortised cost.
Impairment is assessed using the expected credit loss model. In determining the impairment loss, amounts dues from subsidiaries are classified as amounts repayable on demand, low credit risk receivables and amounts for which there has been a substantial increase in credit risk since initial recognition. In determining an expected credit loss, regard is given to historic performance as well as forward looking information for the relevant subsidiary including detailed discounted cash flow forecasts, where appropriate.

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 26.

(xii) Net Finance Costs

Finance costs comprise interest payable on borrowings, financing charge on provisions, fair value movements on financing instruments 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.

Finance income comprises fair value movements on financing instruments classified as fair value through profit or loss and any interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

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.

1. Statement of Accounting Policies (continued)

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 and other debt 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.

(g) 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) Significant judgements in applying the Group's accounting policies

The following are the significant 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.

1. Statement of Accounting Policies (continued)

(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 2019, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,532.0 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 (2019: €136.4 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 1(f)). 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.

(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 23 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 issues and exposures. Amounts provided are based on the Group's interpretation of tax laws and the likelihood of settlement. 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. Refer to note 9.

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 support services to the Group in the areas of Transactional Services, Finance, HR, IT Operations and Supply Chain. In addition, Business Solutions is a centre of excellence for Insurance, Facilities and Project Support. ▸ 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 27). Consequently, Irish Water is not included in this note.

(a) Revenue

Revenue split by geographic location is as follows:

	2019 €'000	2018 €'000
Ireland	432,132	450,693
UK (including Northern Ireland and Isle of Man)	37,731	36,490
Total	**469,863**	**487,183**

Included in the Group's revenue of €469.9 million for 2019 (2018: €487.2 million) are revenues of €125 million (2018: €129.4 million), €65.1 million (2018: €61.4 million) and €50.9 million (2018: €47.7 million) which arose from sales to the Group's three largest customers.

2. Divisional Informations (continued)

(b) Capital expenditure

	Capital additions to property, plant and equipment (Note 10) 2019 €'000	2018 €'000	Capital additions to intangible assets (Note 12) 2019 €'000	2018 €'000
Gas Networks Ireland	102,371	134,733	7,274	8,211
Ervia Parent	122	232	-	-
Total	**102,493**	**134,965**	**7,274**	**8,211**

(c) Non-current assets by geographic location

	31-Dec-19 €'000	31-Dec-18 €'000
Ireland	2,169,556	2,166,981
UK (including Northern Ireland and Isle of Man)	362,396	371,289
Total	**2,531,952**	**2,538,270**

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

	Gas Networks Ireland (Statutory Results) 2019 €'000	Consolidation and Eliminations 2019 €'000 Note 1	A Gas Networks Ireland (Segment Results) 2019 €'000	Ervia Parent (Statutory Results) 2019 €'000	Consolidation and Eliminations 2019 €'000 Note 2	B Ervia Parent (Segment Results) 2019 €'000	A + B = C Ervia Group (Statutory Results) 2019 €'000
Revenue	469,863	-	469,863	-	-	-	469,863
Operating costs (excluding depreciation and amortisation)	(185,510)	-	(185,510)	(3,285)	-	(3,285)	(188,795)
Operating profit/(loss) before depreciation and amortisation (EBITDA)	**284,353**	**-**	**284,353**	**(3,285)**	**-**	**(3,285)**	**281,068**
Depreciation and amortisation	(138,862)	3,896	(134,966)	(1,395)	-	(1,395)	(136,361)
Operating profit/(loss)	**145,491**	**3,896**	**149,387**	**(4,680)**	**-**	**(4,680)**	**144,707**
Finance income	1,883	-	1,883	54,404	(54,715)	(311)	1,572
Finance costs	(20,511)	-	(20,511)	(2,642)	311	(2,331)	(22,842)
Net finance (costs)/ income	**(18,628)**	**-**	**(18,628)**	**51,762**	**(54,404)**	**(2,642)**	**(21,270)**
Profit/(loss) before income tax	**126,863**	**3,896**	**130,759**	**47,082**	**(54,404)**	**(7,322)**	**123,437**

2. Divisional Informations (continued)

	GAS NETWORKS IRELAND (STATUTORY RESULTS) 31-DEC-19 €'000	CONSOLIDATION AND ELIMINATIONS 31-DEC-19 €'000 NOTE 1	A GAS NETWORKS IRELAND (SEGMENT RESULTS) 31-DEC-19 €'000	ERVIA PARENT (STATUTORY RESULTS) 31-DEC-19 €'000	CONSOLIDATION AND ELIMINATIONS 31-DEC-19 €'000 NOTE 3	B ERVIA PARENT (SEGMENT RESULTS) 31-DEC-19 €'000	A + B = C ERVIA GROUP (STATUTORY RESULTS) 31-DEC-19 €'000
Infrastructure assets	2,572,569	(62,173)	2,510,396	21,556	-	21,556	2,531,952
Other assets	199,579	-	199,579	809,668	(766,606)	43,062	242,641
Total assets	**2,772,148**	**(62,173)**	**2,709,975**	**831,224**	**(766,606)**	**64,618**	**2,774,593**
Borrowings and other debt	(1,190,197)	-	(1,190,197)	(14,037)	-	(14,037)	(1,204,234)
Retirement benefit obligations	-	-	-	(147,476)	-	(147,476)	(147,476)
Other liabilities	(517,997)	9,989	(508,008)	(28,164)	85,170	57,006	(451,002)
Total liabilities	**(1,708,194)**	**9,989**	**(1,698,205)**	**(189,677)**	**85,170**	**(104,507)**	**(1,802,712)**
Net assets	**1,063,954**	**(52,184)**	**1,011,770**	**641,547**	**(681,436)**	**(39,889)**	**971,881**
Net debt	**(1,073,605)**	-	**(1,073,605)**	**(10,225)**	-	**(10,225)**	**(1,083,830)**

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 (2019: €3.9 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 €62.2 million as at 31 December 2019. The deferred tax liability on these assets, subject to elimination on consolidation, was €10.0 million as at 31 December 2019.

Note 2:
The intra-group dividend declared from Gas Networks Ireland to Ervia Parent of €54.4 million for the year ended 31 December 2019 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 16.
- The Ervia Parent intercompany receivable from Gas Networks Ireland Group of €76.5 million is eliminated against the corresponding liability in Gas Networks Ireland Group. Refer to Parent note 9.
- The Ervia Parent deferred tax asset of €8.5 million is offset against deferred tax liabilities recognised in the Gas Networks Ireland Group.

3. Revenue

	2019 €'000	2018 €'000
Regulated	414,916	423,527
Unregulated - transportation contracts	27,603	29,309
Unregulated - new connections contracts	5,464	9,902
Unregulated - other	21,880	24,445
Total	**469,863**	**487,183**

4. Operating Costs (excluding depreciation and amortisation)

	2019 €'000	2018 €'000
Employee benefit expense	(93,496)	(86,081)
Hired and contracted services	(15,154)	(13,705)
Materials, maintenance and sub-contractor costs	(57,043)	(55,541)
Rent, rates and facilities	(31,615)	(30,840)
Other operating expenses	(47,466)	(50,347)
Recharges to non-controlled undertakings (note 28)	55,979	44,044
Total	**(188,795)**	**(192,470)**

Operating costs are stated after charging:

	2019 €'000	2018 €'000
(a) Auditor's remuneration		
- statutory audit services	(175)	(169)
- other audit related assurance services	(63)	(70)
- other non-audit services	(77)	(16)
Total	**(315)**	**(255)**
(b) Board members' emoluments		
- fees	(158)	(157)
- remuneration of the Group Chief Executive Officer*	(338)	(302)
Total	**(496)**	**(459)**

*Current year remuneration above includes remuneration of the current acting CEO who was appointed on 05 April 2019 and the remuneration of the former CEO (inclusive of accrued annual leave entitlements) who resigned on 05 April 2019.

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

	2019 €'000	2018 €'000
(b) (i) Current Group Chief Executive Officer		
Group Chief Executive Officer's basic salary	(166)	-
Other short-term employee benefits	(43)	-
Post-employment benefits - pension contributions	(28)	-
Total	**(237)**	**-**
(b) (ii) Former Group Chief Executive Officer		
Group Chief Executive Officer's basic salary	(75)	(225)
Other short-term employee benefits	(7)	(21)
Post-employment benefits - pension contributions	(19)	(56)
Total	**(101)**	**(302)**

5. Employee Benefits

(a) Aggregate employee benefits

	2019 €'000	2018 €'000
Staff short-term benefits	(89,283)	(75,272)
Post-employment benefits - pension contributions	(15,160)	(17,913)
Employer's contribution to social welfare	(10,077)	(8,120)
	(114,520)	(101,305)
Capitalised payroll and other payroll transfers	21,024	15,224
Employee benefit expense charged to profit or loss	**(93,496)**	**(86,081)**

(b) Staff short-term benefits

	2019 €'000	2018 €'000
Wages and salaries	(84,912)	(71,150)
Overtime	(1,091)	(1,163)
Allowances	(1,019)	(892)
Other	(2,261)	(2,067)
Total	**(89,283)**	**(75,272)**

The average number of employees employed by the Group was 1,144 for 2019 (2018: 981).

The Group recognised employee termination expenses of €nil in the reporting period. Refer to note 23 for details of termination benefits charged against the restructuring provision.

6 Key Management Compensation

	2019 €'000	2018 €'000
Short-term employee benefits	(1,547)	(1,477)
Post-employment benefits	(180)	(182)
Total	**(1,727)**	**(1,659)**

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. Depreciation and Amortisation

		2019 €'000	2018 €'000
Depreciation	10	(135,542)	(131,353)
Depreciation of Right of Use Assets	11	(1,371)	-
Amortisation of intangible assets	12	(5,964)	(5,424)
Grant amortisation	22	6,516	5,710
Total		**(136,361)**	**(131,067)**

8. Net Finance Costs

		2019 €'000	2018 €'000
Before remeasurements			
Finance costs			
Interest and other charges on borrowings		(19,403)	(22,894)
Interest capitalised		218	1,122
Financing charge		-	(67)
Lease liability finance charge		(382)	-
Net interest on the net defined benefit liability	20	(1,935)	(2,125)
Total finance costs		**(21,502)**	**(23,964)**
Remeasurements			
Net changes in fair value of financing undesignated derivatives	(i)	1,572	1,397
Net changes in fair value of financial instruments designated in a fair value hedging relationship	(i)	(1,340)	(79)
Total remeasurement items		**232**	**1,318**
Total			
Finance income		1,572	1,397
Finance costs		(22,842)	(24,043)
Net finance costs		**(21,270)**	**(22,646)**

(i) Remeasurements relate to unrealised fair value movements on derivative and other financial instruments 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 instruments falling within the scope of IFRS 9 are set out in accounting policy 1(f).

9. Tax

	2019 €'000	2018 €'000
Current tax expense		
Current tax	(21,610)	(24,642)
Adjustments in respect of previous years	100	2,241
	(21,510)	(22,401)
Deferred tax credit		
Origination and reversal of temporary differences	3,033	3,483
Adjustments in respect of previous years	317	(32)
	3,350	3,451
Total income tax expense	**(18,160)**	**(18,950)**

9. Tax (continued)

Reconciliation of effective tax rate

	2019 €'000	2018 €'000
Profit before tax	123,437	141,000
Taxed at 12.5% (2018: 12.5%)	(15,430)	(17,625)
Expenses not deductible for tax purposes	(1,793)	(1,968)
Income not taxable	492	490
Profits taxed at higher rates	(1,781)	(1,712)
Effect of tax rate change	(132)	(376)
Exchange adjustments	67	33
Adjustments in respect of previous years	417	2,208
Total income tax expense	**(18,160)**	**(18,950)**

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

Current tax liabilities

	31-DEC-19 €'000	31-DEC-18 €'000
Current tax liabilities	(3,323)	(2,502)

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 2018	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)**
Recognised in income statement	878	-	3,831	(1,128)	(231)	3,350
Recognised in equity	5,400	(125)	-	-	-	5,275
Exchange adjustments	-	-	(925)	417	-	(508)
At 31 December 2019	**18,576**	**72**	**(204,096)**	**(2,438)**	**(127)**	**(188,013)**

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.

	2019 €'000	2018 €'000
Capital losses	3,600	3,600
Losses forward	-	-

10. Property, Plant and Equipment

		31-DEC-19 €'000	31-DEC-18 €'000
Property, Plant and Equipment - owned assets		2,490,274	2,516,656
Right of use assets - leases	11	18,702	-
Property, Plant and Equipment - as presented on the balance sheet		**2,508,976**	**2,516,656**

Property, Plant and Equipment-owned assets

	LAND AND BUILDINGS €'000	PLANT, PIPELINE AND MACHINERY €'000	ASSETS UNDER CONSTRUCTION €'000	TOTAL €'000
Cost				
At 1 January 2018	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**
Additions	-	7,959	94,534	102,493
Transfers in year	(3)	77,643	(77,640)	-
Disposals	-	(5,536)	-	(5,536)
Effect of movement in exchange rates	-	13,842	184	14,026
At 31 December 2019	**89,336**	**4,410,226**	**48,841**	**4,548,403**
Accumulated depreciation and impairment losses				
At 1 January 2018	(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)**
Depreciation for the year	(1,841)	(133,701)	-	(135,542)
Disposals	-	5,486	-	5,486
Effect of movement in exchange rates	-	(7,309)	-	(7,309)
At 31 December 2019	**(39,537)**	**(2,018,592)**	**-**	**(2,058,129)**
Carrying amounts				
At 31 December 2018[1]	51,643	2,433,250	31,763	2,516,656
At 31 December 2019[1]	**49,799**	**2,391,634**	**48,841**	**2,490,274**

[1]The carrying value of Property, Plant and Equipment includes assets that are subject to operating lease arrangements as described in note 11. The carrying value of these assets at 31 December 2019 was €95.2 million (31 December 2018: €108.0 million) and is included in Plant, pipeline and machinery.

During the year, the Group capitalised €0.2 million (2018: €1.1 million) in interest. The capitalisation rate was 1.69% (2018: 2.0%). The Group also capitalised €10.5 million in payroll costs during the year (2018: €7.8 million).

Gas Networks Ireland (IOM) DAC a subsidiary within the Group, entered into a project financing arrangement in 2003. The balance outstanding of €2.7 million at 31 December 2019 (2018: €5.2 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) DAC (note 18).

Capital commitments

	2019 €'MILLION	2018 €'MILLION
Contracted for	41	40

11. Leases

The Group as Lessee

The Group has entered various leasing arrangements which generally relate to the rental of buildings, land and telecommunications assets. There are no significant or unusual restrictions imposed by the terms of these leases. All lease arrangements are at an arm's length basis.

(a) Amounts recognised on the Balance Sheet

	LAND AND BUILDINGS €'000	PLANT, PIPELINE AND MACHINERY €'000	TOTAL €'000
Right of use assets			
Balance as at 1 January 2019 - note 1e	10,902	4,629	15,531
Additions	4,542	-	4,542
Depreciation	(1,106)	(265)	(1,371)
Balance as at 31 December 2019	**14,338**	**4,364**	**18,702**
Lease liabilities			
Balance as at 1 January 2019 - note 1e	(10,802)	(3,242)	(14,044)
Additions	(4,542)	-	(4,542)
Interest expense	(284)	(98)	(382)
Lease payments	1,135	240	1,375
Balance as at 31 December 2019	**(14,493)**	**(3,100)**	**(17,593)**
Analysed as follows:			
Non current			(16,358)
Current			(1,235)
Total			**(17,593)**

A maturity analysis of lease liabilities is presented in note 18. The Group does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

(b) Other amounts recognised in the statement of profit or loss

	2019 €'000
Expenses relating to short-term leases	-
Expenses relating to low-value assets that are not short term leases	-
Expenses relating to variable lease payments not included in lease liabilities	-
Total	**-**

The Group as Lessor

The Group enters operating lease arrangements 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. Below is a profile of undiscounted non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 4 to 12 years.

Maturity analysis

	31-DEC-19 €'000	31-DEC-18 €'000
Year 1	22,948	23,908
Year 2	21,984	22,395
Year 3	20,748	20,340
Year 4	16,682	19,678
Year 5	8,296	17,472
Year 6 onwards	98,175	106,574
Total	**188,832**	**210,367**

12. Intangible Assets

	SOFTWARE AND OTHER €'000	SOFTWARE UNDER DEVELOPMENT €'000	TOTAL €'000
Cost			
At 1 January 2018	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**
Additions (incl internally developed)	-	7,274	7,274
Transfers in year	6,023	(6,023)	-
Effect of movement in exchange rates	111	4	115
At 31 December 2019	**147,253**	**8,405**	**155,658**
Amortisation and impairment losses			
At 1 January 2018	(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)**
Amortisation for the year	(5,964)	-	(5,964)
Effect of movement in exchange rates	(63)	-	(63)
At 31 December 2019	**(132,682)**	**-**	**(132,682)**
Carrying amounts			
At 31 December 2018	14,464	7,150	21,614
At 31 December 2019	**14,571**	**8,405**	**22,976**

The Group capitalised the sum of €1.1 million in payroll costs during the year (2018: €1.4 million).

13. Inventory

	31-DEC-19 €'000	31-DEC-18 €'000
Gas stock and engineering materials	**2,578**	**1,675**

In 2019 inventories recognised in the income statement amounted to €0.7 million (2018: €1.1 million). There were no write-downs of inventories to net realisable value in 2019 (2018: €nil).

14. Trade and Other Receivables

	31-DEC-19 €'000	31-DEC-18 €'000
Trade receivables	6,107	9,486
Trade receivables - unbilled	38,561	40,856
Prepayments	9,298	7,731
Amounts due from non-controlled undertakings	35,475	28,000
Grant receivable	7,099	7,099
Other receivables	3,693	4,286
Total	**100,233**	**97,458**
Analysed as follows:		
Non-current	-	-
Current	100,233	97,458
Total	**100,233**	**97,458**

Trade and other receivables are stated net of expected credit losses. Trade receivables mainly represent receivables in respect of use of system revenue in Ireland and charges for use of the North West and the South North transmission pipelines in Northern Ireland. Refer to note 28 for further detail in respect of balances with related parties.

Expected Credit Loss Allowance

There are no material bad debt provisions recognised by the Group and Management does not expect any significant losses of receivables that have not been provided.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL (expected credit losses). These expected credit losses (ECL) are measured under the simplified approach under IFRS 9. A provision matrix is not used by the Group as an assessment of ECL on individual debtors is performed. In general, the Group has recognised a loss allowance of 100 per cent against all receivables over 120 days past due based on historical experience that these receivables are generally not recoverable, unless there is objective evidence to the contrary.

The maximum exposure of trade and other receivables to credit risk at the reporting date is €83.8 million (2018: €82.6 million). Prepayments of €9.3 million (2018: €7.7 million) are excluded as no credit exposure arises. Grant receivable of €7.1 million at the reporting date, was received prior to the approval of these financial statements, and is also excluded from the maximum credit risk exposure.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach as set out in IFRS 9.

Provision for impairment of receivables

	INDIVIDUALLY ASSESSED 2019 €'000	2018 €'000
At 1 January	(464)	(461)
Impairment loss recognised	(65)	(33)
Provision utilised	22	30
At 31 December	**(507)**	**(464)**

14. Trade and Other Receivables (continued)

The ageing of trade and other receivables (excluding amounts due from non controlled undertakings), net of expected credit losses, is as follows:

	NET RECEIVABLE 31-DEC-19 €'000	NET RECEIVABLE 31-DEC-18 €'000
Not past due	46,340	53,899
0 – 30 days	1,470	166
31 – 120 days	157	375
> 120 days	394	188
Total	**48,361**	**54,628**

Expected Credit Losses Reconciliation

	2019 €'000	2018 €'000
Simplified approach	48,361	54,628
Amounts due from non-controlled undertakings	35,475	28,000
Prepayments & Grant receivable	16,397	14,830
Total	**100,233**	**97,458**

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

	31-DEC-19 €'000	31-DEC-18 €'000
Ireland	76,472	75,309
UK (including Northern Ireland and Isle of Man)	7,364	7,319
Total	**83,836**	**82,628**

Use of System Receivables:

Republic of Ireland: 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 were twenty eight external shippers at year end. 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. Under the Gas network code of operations, Shippers may be required to provide Financial Security 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 Group has not recognised any impairment loss in the current or prior reporting period.

Northern Ireland: Use of system revenue in Northern Ireland comprises Transmission Use of System (TUoS) revenue. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Shippers may be required to provide Financial Security 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 Group has not recognised any impairment loss in the current or prior reporting period.

Amounts due from non-controlled undertakings

At 31 December 2019, the Company had amounts due from non-controlled undertakings of €35.5 million (2018: €28.0 million). Total provision in respect of these amounts is €nil (2018: €nil).

The impairment loss recognised of €nil in respect of amounts due from non-controlled subsidiaries has been calculated using the expected credit loss model under the simplified approach as required by IFRS 9.

Other Receivables:

Other trade receivables include unregulated customer contract receivables, third party damages receivables, Aurora Telecom receivables and regulated customer contract receivables that are ancillary to the use of the DUos and TUos systems. 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).

15. Cash and Cash Equivalents

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

	31-DEC-19 €'000	31-DEC-18 €'000
Cash and cash equivalents	105,086	131,826
Total	**105,086**	**131,826**

	2019 €'000	2018 €'000
At 1 January	131,826	76,226
(Decrease)/increase in cash and cash equivalents in the statement of cash flows	(27,138)	55,589
Effect of exchange rate fluctuations on cash held	398	11
At 31 December	**105,086**	**131,826**

16. Restricted Deposits

Restricted deposits include amounts held in respect of gas network related security deposits.

	31-DEC-19 €'000	31-DEC-18 €'000
Current	17,717	26,700
Total	**17,717**	**26,700**

17. Cash Generated from Operations

	NOTES	2019 €'000	2018 €'000
Cash flows from operating activities			
Profit for the year		105,277	122,050
Adjustments for:			
Depreciation and amortisation	7	136,361	131,067
Net finance costs	8	21,270	22,646
Retirement benefit cost		4,046	7,660
Income tax expense	9	18,160	18,950
		285,114	**302,373**
Working capital changes:			
Change in inventories		(903)	(616)
Change in trade and other receivables		1,618	39,344
Change in trade and other payables		(10,100)	11,880
Change in deferred revenue		685	(2,645)
Change in provisions		(1,938)	100
Cash from operating activities		**274,476**	**350,436**
Interest paid		(18,208)	(22,006)
Income tax paid		(20,896)	(26,623)
Net cash from operating activities		**235,372**	**301,807**

18. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note 25 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)

	31-DEC-19 €'000	31-DEC-18 €'000
Bonds	(918,297)	(619,560)
Loans from financial institutions[1]	(268,344)	(572,266)
Lease liabilities	(17,593)	-
Total	**(1,204,234)**	**(1,191,826)**

Borrowings and other debt analysed as follows:

	31-DEC-19 €'000	31-DEC-18 €'000
Between one and five years	(428,625)	(124,139)
More than five years	(732,920)	(620,988)
Non-current	**(1,161,545)**	**(745,127)**
Less than one year	(42,689)	(446,699)
Current	**(42,689)**	**(446,699)**
Total	**(1,204,234)**	**(1,191,826)**

[1] including private placement notes.

Total borrowings include €139.5 million (2018: €453.1 million) of floating rate debt, €2.7 million (2018: €5.2 million) of inflation linked debt and €1,044.5 million (2018: €733.5 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) DAC, which primarily comprises of 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.

Certain borrowings are held with related parties, refer to note 28 for full details of related party disclosures.

Net debt

		31-DEC-19 €'000	31-DEC-18 €'000
Total borrowings and other debt		(1,204,234)	(1,191,826)
Less fair value hedges recognised within borrowings	25	15,318	24,167
Less cash and cash equivalents	15	105,086	131,826
Net debt		**(1,083,830)**	**(1,035,833)**

18. Borrowings and Other Debt (continued)

	BONDS 2019 €'000	LOANS FROM FINANCIAL INSTITUTIONS 2019 €'000	LEASE LIABILITIES 2019 €'000	TOTAL 2019 €'000	BONDS 2018 €'000	LOANS FROM FINANCIAL INSTITUTIONS 2018 €'000	LEASE LIABILITIES 2018 €'000	TOTAL 2018 €'000
As at 1 January	(619,560)	(572,266)	-	(1,191,826)	(618,984)	(566,517)	-	(1,185,501)
Lease liability - IFRS 16 transition (note 1e)	-	-	(14,044)	(14,044)	-	-	-	-
Proceeds from borrowings	(298,128)	(354,695)	-	(652,823)	-	(99,662)	-	(99,662)
Repayment of borrowings and lease liabilities	-	655,125	993	656,118	-	102,249	-	102,249
Change in fair value of financial liabilities	-	8,849	-	8,849	-	(8,589)	-	(8,589)
Exchange movement	-	(4,362)	-	(4,362)	-	1,188	-	1,188
Other non-cash movements	(609)	(995)	(4,542)	(6,146)	(576)	(935)	-	(1,511)
As at 31 December	**(918,297)**	**(268,344)**	**(17,593)**	**(1,204,234)**	**(619,560)**	**(572,266)**	**-**	**(1,191,826)**

19. Dividends

Dividend declared

	2019 €'000	2018 €'000
To the Exchequer	139,404	144,189
Total	**139,404**	**144,189**

Dividend paid

	2019 €'000	2018 €'000
Annual dividend paid to the Exchequer	54,404	49,089
Special dividend on sale of the Energy business paid to the Exchequer	85,000	90,000
Total	**139,404**	**139,089**

Ervia is 100% beneficially owned by the Irish State. A dividend of €139.4 million (2018: €139.1 million) was paid to the Exchequer during the year. In 2018, following agreement with the Department of Housing, Planning and Local Government, Ervia withheld €5.1 million. This is due to be paid in 2023 with an appropriate interest rate accruing annually. Annual dividends are based on 45% (2018: 45%) of the previous year's profit before certain exceptional items, as directed by the shareholder. The 2019 dividend paid includes payment of a further special dividend of €85.0 million (2018: €90.0 million) following the sale of the Energy business in 2014.

20. 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.

20. Retirement Benefit Obligations (continued)

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

	2019 €'000	%	2018 €'000	%
Investments quoted in active markets:				
Equities	199,428	42.1%	168,679	40.4%
- developed markets	178,213		150,951	
- emerging markets	21,215		17,728	
Bonds	193,521	40.8%	209,085	50.2%
- Government debt	193,521		183,623	
- Non-government debt	-		25,462	
Investment funds	68,889	14.4%	29,618	7.1%
Cash	1,261	0.3%	972	0.2%
Unquoted investments:				
Property/forestry	4,099	0.9%	3,815	0.9%
Infrastructure	2,804	0.6%	-	0.0%
Private equity/venture capital	3,873	0.8%	4,576	1.1%
Total fair value of plan assets at 31 December	**473,875**	**100.0%**	**416,745**	**100.0%**
Defined benefit obligation	(621,351)		(515,126)	
Net pension liability at 31 December	**(147,476)**		**(98,381)**	

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

	2019 €'000	2018 €'000
Current service cost	(11,460)	(14,024)
Net interest on the net defined benefit liability	(1,935)	(2,125)
Past service cost	-	(1,388)
Total pension cost recognised in the income statement	**(13,395)**	**(17,537)**

Analysis of amount charged to provisions

	2019 €'000	2018 €'000
Current service cost	(293)	(397)
Amount charged to provisions	**(293)**	**(397)**

Recharges to non-controlled undertaking

	2019 €'000	2018 €'000
Current service cost	(1,003)	(1,034)
Total recharges to non-controlled undertaking	**(1,003)**	**(1,034)**

Remeasurements recognised in other comprehensive income

	2019 €'000	2018 €'000
Return on plan assets excluding interest income	48,386	(21,211)
Experience gain/(loss) on liabilities	57	(3,737)
Effect of changes in financial assumptions	(91,639)	64,095
Total pension (loss)/gain recognised in other comprehensive income	**(43,196)**	**39,147**

20. Retirement Benefit Obligations (continued)

Movement in the fair value of plan assets

	2019 €'000	2018 €'000
Opening fair value of plan assets	416,745	429,571
Interest income on plan assets	8,752	7,525
Return on plan assets (excluding interest income) - gains/(losses)	48,386	(21,211)
Contributions by employers	8,793	9,268
Contributions by members	3,598	3,487
Benefits paid	(12,398)	(11,895)
Closing fair value of plan assets	**473,875**	**416,745**

Movement in the present value of the defined benefit obligation

	2019 €'000	2018 €'000
Opening defined benefit obligation	(515,126)	(557,399)
Current service cost	(12,756)	(15,455)
Past service cost	-	(1,388)
Interest cost	(10,687)	(9,650)
Contributions by members	(3,598)	(3,487)
Benefits paid	12,398	11,895
Actuarial gains/(losses)	(91,582)	60,358
Closing defined benefit obligation	**(621,351)**	**(515,126)**

The weighted average duration of the defined benefit obligation at 31 December 2019 was approximately 22 years (2018: 21 years). The Group expects to contribute €8.7 million to its pension plan in 2020.

The principal actuarial assumptions used were as follows:

	2019	2018
Discount rate	1.25%	2.10%
Inflation assumption	1.40%	1.50%
Rate of increase in salaries*	1.90%	2.00%
Rate of increase in pensions payment	1.40%	1.50%

*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:

	2019	2018
Retiring today		
Males	22.5	22.3
Females	24.9	24.8
Retiring in 25 years		
Males	25.4	25.3
Females	27.5	27.4

20. 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 €33.0m/increase by €35.7m
Price inflation	Increase/decrease by 0.25%	Increase by €35.5m/decrease by €33.0m
Salary	Increase/decrease by 0.25%	Increase by €13.6m/decrease by €13.1m
Longevity in retirement	Increase/decrease by one year	Increase by €19.3m/decrease by €19.1m

Defined contribution scheme

During the year ended 31 December 2019, Ervia contributed €3.7 million, in respect of the Ervia Defined Contribution Scheme (2018: €2.5 million), on behalf of its employees, which was charged to the income statement.

21. Deferred Revenue

	2019 €'000	2018 €'000
At 1 January	(18,107)	(20,752)
Received in year	(6,468)	(3,594)
Credited to the income statement	5,783	6,239
At 31 December	**(18,792)**	**(18,107)**

Analysed as follows:

	31-DEC-19 €'000	31-DEC-18 €'000
Non-current	(8,723)	(9,716)
Current	(10,069)	(8,391)
Total	**(18,792)**	**(18,107)**

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.

22. Government Grants

	2019 €'000	2018 €'000
At 1 January	(88,012)	(77,705)
Receivable in year	(631)	(16,600)
Amortised in year	6,516	5,710
Credited to the income statement	88	376
Effect of movement in exchange rates	(1,167)	207
At 31 December	**(83,206)**	**(88,012)**

Analysed as follows:

	31-DEC-19 €'000	31-DEC-18 €'000
Non-current	(76,660)	(81,554)
Current	(6,546)	(6,458)
Total	**(83,206)**	**(88,012)**

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. No grants were repayable in the current or prior finacial year.

Grants receivable for 2019 of €0.6 million (2018: €0.2 million) related to the grant funding from the Innovation and Networks Executive Agency (INEA) for the Causeway infrastructure project. An amount of €16.4 million was receivable in 2018 in relation to the grant funding from INEA for the Twinning project. A number of conditions relating to this grant funding remain in progress at year end.

23. Provisions

	RESTRUCTURING €'000	ENVIRONMENTAL €'000	SELF-INSURED CLAIMS €'000	TOTAL €'000
At 1 January 2019	(318)	(5,801)	(6,840)	(12,959)
Provisions made in the year	-	-	(1,943)	(1,943)
Provisions used in the year	153	2,833	895	3,881
At 31 December 2019	**(165)**	**(2,968)**	**(7,888)**	**(11,021)**

Analysed as follows:

	31-DEC-19 €'000	31-DEC-18 €'000
Non-current	(6,245)	(7,201)
Current	(4,776)	(5,758)
Total	**(11,021)**	**(12,959)**

23. Provisions (continued)

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 €0.153 million in aggregate during 2019 in respect of four employees who exited under the terms of the programme. These liabilities are expected to be substantially discharged by 2023.

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 2019. 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 2023.

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 22.

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 2019, €1.4 million (2018: €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 2019 (2018: €nil). The maximum exposure to credit risk under these obligations is €1.4 million.

24. Trade and Other Payables

	31-DEC-19 €'000	31-DEC-18 €'000
Trade payables	(14,838)	(15,599)
Accruals	(80,541)	(96,402)
Other payables	(32,247)	(40,629)
Taxation and social insurance creditors[1]	(15,810)	(16,335)
Total	**(143,436)**	**(168,965)**
Analysed as follows:		
Non-current	(14,603)	(6,916)
Current	(128,833)	(162,049)
Total	**(143,436)**	**(168,965)**
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	(2,236)	(1,658)
VAT	(13,574)	(14,677)
Total	**(15,810)**	**(16,335)**

25. Financial Risk Management and Financial Instruments

Fair value by class of derivative financial instrument

Cross currency interest rate swaps

The Group has entered into a cross currency interest rate swap to convert Fixed USD debt on the 2009 USD private placement to floating EUR commitments. The cross currency swaps were entered into in order to swap US dollar interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity from 2009 to 2021.

The cross currency interest rate swap matches the maturity profile of the underlying Private Placement debt. The CCIRS has similar critical terms as the hedged item, such as reference rate, payment dates, maturities and notional amount. The fair value of the cross currency swap is affected by movements in foreign exchange and interest rates. The cross currency swap is designated as a hedging instrument under hedge accounting. Under the hedge accounting relationship the cross currency swap is disaggregated into two separate components and part designated as Fair Value hedge (FVTPL - designated) and Cash Flow hedge (FVTOCI).

Interest rate swaps

The Group has entered into interest rate swaps to fix the effective interest rate on €111m of Private Placement debt maturing in 2021. The fair value takes into account the fixed, floating and market rates prevailing at the balance sheet date and these swaps were not designated for hedging accounting purposes.

Inflation linked interest rate swaps

The Group has inflation linked debt secured over the assets of Gas Networks Ireland (IOM) DAC, which primarily comprises of 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 inflation, the Group entered into a UK RPI Swap with a third party. This swap did not qualify for hedge accounting under IAS 39 on the Group transition to IFRS. Upon transition to IFRS 9 no adjustment to this treatment was applied. The fair value of the inflation linked interest rate swaps is affected by relative movements in interest rates and UK RPI.

Foreign exchange contracts and currency swaps

The Group has entered into foreign exchange contracts in relation to supplier payments (which are in US dollar and sterling) and in relation to the hedge of sterling based operations.

These contracts have maturities extending until 2021. The trades in place at 31 December 2019 were not designated for hedge accounting purposes.

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 26 for IFRS 13 disclosures in respect of fair value measurement.

25. 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 2019						
Financial assets						
Cross currency interest rate swaps	Level 2	-	16,733	(576)	-	16,157
Foreign exchange rate contracts	Level 2	870	-	-	-	870
Trade and other receivables[3]		-	-	-	83,836	83,836
Cash and cash equivalents		-	-	-	105,086	105,086
Restricted deposits		-	-	-	17,717	17,717
Total financial assets		**870**	**16,733**	**(576)**	**206,639**	**223,666**
Financial liabilities						
Borrowings and other debt[1]	Level 2	-	(15,318)	-	(1,188,916)	(1,204,234)
Interest rate/Inflation linked derivatives	Level 2	(2,245)	-	-	-	(2,245)
Foreign exchange rate contracts	Level 2	(966)	-	-	-	(966)
Trade and other payables[2]		-	-	-	(47,085)	(47,085)
Total financial liabilities		**(3,211)**	**(15,318)**	**-**	**(1,236,001)**	**(1,254,530)**
Net financial (liabilities)/assets		**(2,341)**	**1,415**	**(576)**	**(1,029,362)**	**(1,030,864)**
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[3]		-	-	-	82,628	82,628
Cash and cash equivalents		-	-	-	131,826	131,826
Restricted deposits		-	-	-	26,700	26,700
Total financial assets		**69**	**26,922**	**(1,577)**	**241,154**	**266,568**
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[2]		-	-	-	(56,228)	(56,228)
Total financial liabilities		**(3,983)**	**(24,167)**	**-**	**(1,223,887)**	**(1,252,037)**
Net financial (liabilities)/assets		**(3,914)**	**2,755**	**(1,577)**	**(982,733)**	**(985,469)**

[1]The fair value of borrowings and other debt (excluding lease liabilities) as at 31 December 2019 was €1,237.5 million (2018: €1,206.0 million).

[2]Accrued expenses and taxation liabilities have been excluded as these are not classified as financial liabilities.

[3]Prepayments and grants receivable have been excluded as these are not classified as a financial asset.

Derivative assets and liabilities designated as hedges

The Group applies the criteria defined by IFRS 9 in classifying derivatives as hedges. Only derivative instruments external to the Group qualify for consideration for hedge accounting.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

25. Financial Risk Management and Financial Instruments (continued)

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. The ineffective portion of fair value hedges was €0.03 million for 2019 (2018: €0.1 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2019 was €16.7 million asset (2018: €26.9 million asset).

(ii) Cash flow hedges (FVTOCI)

The fair value of hedging derivatives in a cash flow hedge in the balance sheet as at 31 December 2019 was €0.6 million liability (2018: €1.6 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 2019 was €nil (2018: €nil).

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 2019					
Cross currency interest rate swaps	-	(576)	-	-	(576)
Cash flow hedging derivatives	**-**	**(576)**	**-**	**-**	**(576)**
At 31 December 2018					
Cross currency interest rate swaps	(1,210)	-	(367)	-	(1,577)
Cash flow hedging derivatives	**(1,210)**	**-**	**(367)**	**-**	**(1,577)**

The movements on the Group's cash flow hedge reserve is as follows:

	CCIRS	TOTAL
Opening Balance	(1,577)	(1,577)
Net change in fair values	1,001	1,001
Closing Balance	**(576)**	**(576)**

Effects of hedge accounting on the financial position and performance

The effects of the hedging instruments on the Group's financial position and performance are as follows:

	2019 CCIRS €'000	2018 CCIRS €'000
Carrying amount - asset as at 31 December 19	16,157	25,345
Notional Amount	140,000	290,000
Notional Unit	USD	USD
Maturity date - earliest	31-Mar-21	31-Mar-19
Maturity date - latest	31-Mar-21	31-Mar-21
Hedge ratio	1:1	1:1
Change in F.V. of o/s hedging instruments since 01 January	(9,188)	9,428
Change in F.V. of o/s hedged item used to determine hedge effectiveness	8,848	(8,589)
Weighted average hedged rate / price	6.84/1.259	6.74/1.259 6.84/1.259
Unit of rate / price	Interest rate% / FX rate	

The hedge ratio is the quantity of hedging instruments per quantity of hedged item. The appropriate hedge ratio is determined based on specific factors such as interest rate exposures.

25. Financial Risk Management and Financial Instruments (continued)

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

The Group is exposed to credit risk with counterparties the Group has entered into transactions with. 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 the Group's credit risk management is to manage and control credit risk exposures within acceptable parameters.

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

	31-DEC-19 €'000	31-DEC-18 €'000
Trade and other receivables (excluding grant receivable and prepayments)	83,836	82,628
Cash and cash equivalents	105,086	131,826
Restricted deposits	17,717	26,700
Derivative financial instruments	17,027	25,414
Total	**223,666**	**266,568**

(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 (relating to cash and derivative instruments) 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 and derivative transactions are placed with institutions who maintain an investment grade credit rating i.e. not less than Standard & Poor's BBB- or equivalent. All derivative trades are transacted in compliance with the Specification and the Requirements of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992, most recently issued in December 2017. This outlines the criteria that must be satisfied regarding each derivative counterparty with which the Group transacts. 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.

25. Financial Risk Management and Financial Instruments (continued)

(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. 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. 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.

(ii) (a) Funding

The Group's funding position remained strong in 2019. In December 2019, the Group raised a 5 year €300 million bond on the Eurobond market at a coupon rate of 0.125% with a 0.164% yield. There was strong demand in the issuance from high calibre national and international investors with a final orderbook c.3x oversubscribed. Proceeds from the bond were used to repay existing debt and will fund continuing investment in the gas network infrastructure.

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

At 31 December 2019, the Group had €1,585.9 million in committed facilities (2018: €1,622.2 million). Borrowings at 31 December 2019 were €1,186.6 million (2018: €1,191.8 million).

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. Cash surpluses may be invested in, but not limited to; Deposit Accounts and Money Market Funds. 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 disclosure includes cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement, e.g. forward foreign exchange rate contracts.

25. Financial Risk Management and Financial Instruments (continued)

	CARRYING AMOUNT €'000	CONTRACTUAL CASH FLOWS €'000	< 1 YEAR €'000	1-2 YEARS €'000	2-5 YEARS €'000	> 5 YEARS €'000
At 31 December 2019						
Borrowings and other debt	(1,204,234)	(1,325,039)	(62,978)	(140,720)	(335,279)	(786,062)
Trade and other payables	(47,085)	(47,085)	(40,938)	(559)	(5,588)	-
Non-derivative financial liabilities	**(1,251,319)**	**(1,372,124)**	**(103,916)**	**(141,279)**	**(340,867)**	**(786,062)**
Interest rate derivatives	(2,245)	(2,348)	(2,200)	(148)	-	-
Cross currency interest rate swaps	16,157	20,353	4,488	15,865	-	-
Foreign exchange rate contracts	(96)	(96)	(96)	-	-	-
Net derivative financial assets	**13,816**	**17,909**	**2,192**	**15,717**	**-**	**-**
Net financial liabilities	**(1,237,503)**	**(1,354,215)**	**(101,724)**	**(125,562)**	**(340,867)**	**(786,062)**
At 31 December 2018						
Borrowings and other debt	(1,191,826)	(1,329,278)	(470,851)	(20,742)	(155,497)	(682,188)
Trade and other payables	(56,228)	(56,228)	(49,062)	(815)	(5,910)	(441)
Non-derivative financial liabilities	**(1,248,054)**	**(1,385,506)**	**(519,913)**	**(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	**(1,226,623)**	**(1,353,457)**	**(503,207)**	**(19,329)**	**(148,292)**	**(682,629)**

(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.

Group Treasury is responsible for managing market risk with respect to interest rates and currency exchange rates. All such transactions are carried out within the guidelines set by the Treasury Policy and transacted in compliance with the Specification and the Requirements of the Minister of Finance, issued in accordance with provisions of the Financial Transaction of Certain Companies and Other Bodies Act 1992, most recently issued in December 2017. Group Treasury seeks to apply hedge accounting in order to manage volatility in profit or loss where material in context of the Group.

25. Financial Risk Management and Financial Instruments (continued)

(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 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 liabilities, to the extent that they are used to finance or to provide a hedge against the intragroup funding in foreign subsidiaries, is also taken to the income statement.
- **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.

  Under Treasury Policy, 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.

A strengthening or weakening of the euro, as indicated below, against sterling at 31 December would have increased/(decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis is based on exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

	PROFIT BEFORE TAXATION GAIN/ (LOSS) 31-DEC-19 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-19 €'000	PROFIT BEFORE TAXATION GAIN/ (LOSS) 31-DEC-18 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-18 €'000
5% Strengthening	(259)	(1,862)	(330)	(1,669)
5% Weakening	259	1,862	330	1,669

The following assumptions were made in respect of the sensitivity analysis above:

- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only, and
- changes in the carrying value of derivative financial instruments that are cash flow hedges impact other comprehensive income only.

25. Financial Risk Management and Financial Instruments (continued)

(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 impact on net income through impact on finance charges.

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 an ongoing basis 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's policy is to maintain fixed interest rates with a minimum of 60% of net debt fixed on a one year and 50% on a 3 year basis. The Group uses a number of methods, including entering into fixed rate debt and interest rate derivatives to manage the interest rate risk on its debt portfolio.

At 31 December 2019, 97% (2018: 70%) of net debt was fixed. This fixed rate debt had an average duration of 6.95 years (2018: 7.58 years).

The percentage of the Group's fixed and floating rate debt (excluding lease liabilities) at 31 December was as follows:

	2019 €'000	2019 %	2018 €'000	2018 %
At fixed rates[1]	(1,044,495)	88.0%	(733,478)	61.6%
At floating rates	(139,455)	11.8%	(453,126)	38.2%
Inflation linked debt	(2,691)	0.2%	(5,222)	0.4%
Total	**(1,186,641)**	**100.0%**	**(1,191,826)**	**100.0%**

[1] including swaps.

The Group had €921.9 million of fixed rate debt (excluding interest rate swaps) at 31 December 2019 (2018: €622.2 million).

On 31 December 2019, the Group had US$140 million (2018: US$290 million) fixed rate debt outstanding (€111.2 million equivalent (2018: €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 cross currency interest rate swap which matches the maturity profile of the debt. At 31 December 2019, 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 effectively fixing the Private Placement debt instrument until its maturity in March 2021.

At 31 December 2019, the weighted average interest rate of the fixed debt portfolio was 1.33% (2018: 1.82%) which comprised of three bonds of €921.9 million and the US Private Placement with a Euro equivalent 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.

25. 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-19 €'000	PROFIT BEFORE TAXATION 31-DEC-18 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-19 €'000	OTHER COMPREHENSIVE INCOME 31-DEC-18 €'000
50 bp increase	(30)	(1,141)	-	-
50 bp decrease	15	675	-	-

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.

26. 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. There were no transfers in 2019.

26. Fair Value Measurement (continued)

(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 25)	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 25)	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 25)	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. There were no financial instruments that are measured at amortised cost but for which fair value was disclosed classified as Level 3 either in current year or in prior year.

27. Subsidiaries

At 31 December 2019 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:	8th Floor, 20 Farringdon Street, London, United Kingdom EC4A 4AB
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 currently chaired by an independent professional director with four directors representing Ervia employees and one director 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. The promissory notes were redeemed over the period 2014 to 2018.

(b) At 31 December 2019, 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 (2018: 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 2019 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.

28. Related Parties

The related party income transaction values for 2019 and 2018 are detailed below:

		2019 €'000	2018 €'000
Irish Water	(iv)		
Transactional and support service agreement costs	(iv) (a)	55,979	44,044
		55,979	**44,044**

The related party balances receivable are detailed below:

		31-DEC-19 €'000	31-DEC-18 €'000
Irish Water	(iv)	35,475	28,000
		35,475	**28,000**

(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 2019.

(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 27.

(a) Transactional and support service 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, Insurance, Project Support, 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. Refer to note 17 (iv) in the Parent financial statements for further details on transactional and support service costs.

(b) Capital expenditure costs incurred by Ervia Group and recharged to Irish Water

Irish Water transacts with the Group in respect of centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Irish Water costs are re-charged on a monthly basis with no overhead or margin applied by Ervia Group. Capital Expenditure costs recharged in 2019 were €22.2m (2018: €18.7m). Balances in relation to these tranactions 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 2019 (as set out in note 20) includes €1.0 million (2018: €1.0 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.

28. 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 2019.

(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 27. 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.

29. Subsequent Events

As described in the Chairman's Statement and the Chief Executive Officer's Review, we are closely monitoring the developing situation relating to the Coronavirus (COVID-19). This is a non-adjusting event in accordance with IFRS requirements and therefore the 2019 financial results and the 2019 year-end financial position do not reflect any resulting financial effects of COVID-19. At the date of approval of these financial statements, it is not possible to provide an estimate of the possible financial effects of COVID-19.

Parent Income Statement

for the year ended 31 December 2019

	NOTES	2019 €'000	2018 €'000
Continuing operations			
Revenue		-	-
Operating costs (excluding depreciation and amortisation)	1	(3,285)	(6,094)
Operating loss before depreciation and amortisation (EBITDA)		**(3,285)**	**(6,094)**
Depreciation and amortisation	4	(1,395)	(386)
Operating loss		**(4,680)**	**(6,480)**
Finance income[1]	5	54,404	54,189
Finance costs[1]	5	(2,642)	(2,748)
Net finance income	5	51,762	51,441
Profit before income tax		**47,082**	**44,961**
Income tax credit[1]	6	307	3,523
Profit for the year		**47,389**	**48,484**
Profit attributable to:			
Owners of the Parent		47,389	48,484
Profit for the year		**47,389**	**48,484**

[1]2018 disclosures have been represented to show comparatives consistent with 2019 disclosures of the Group financial statements - refer to note 1(b).

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

31st March 2020
Date of Approval

Parent Statement of Other Comprehensive Income

for the year ended 31 December 2019

	NOTES	2019 €'000	2018 €'000
Profit for the year		47,389	48,484
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial (losses)/gains	12	(43,196)	39,147
Deferred tax credit/(expense) relating to defined benefit obligations	6	5,400	(4,893)
Total items that will not be reclassified to profit or loss		**(37,796)**	**34,254**
Total other comprehensive (expense)/income for the year, net of income tax		**(37,796)**	**34,254**
Total comprehensive income for the year		**9,593**	**82,738**
Total comprehensive income attributable to:			
Owners of the Parent		9,593	82,738
Total comprehensive income for the year		**9,593**	**82,738**

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

31st March 2020
Date of Approval

Parent Balance Sheet

as at 31 December 2019

	NOTES	31-DEC-19 €'000	31-DEC-18 €'000
Assets			
Non-current assets			
Property, plant and equipment	7	21,556	8,000
Investment in subsidiary undertakings	16	681,436	681,436
Trade and other receivables	9	5,147	5,100
Deferred tax assets	6	8,523	2,868
Total non-current assets		**716,662**	**697,404**
Current assets			
Trade and other receivables	9	110,552	186,605
Cash and cash equivalents	10	3,812	15,236
Current tax assets	6	198	-
Total current assets		**114,562**	**201,841**
Total assets		**831,224**	**899,245**
Equity and liabilities			
Equity			
Retained earnings		(641,547)	(771,358)
Total equity attributable to equity holders of the Parent		**(641,547)**	**(771,358)**
Liabilities			
Non-current liabilities			
Retirement benefit obligations	12	(147,476)	(98,381)
Trade and other payables	14	(6,147)	(6,916)
Lease liabilities	8	(13,137)	-
Total non-current liabilities		**(166,760)**	**(105,297)**
Current liabilities			
Trade and other payables	14	(21,699)	(22,481)
Lease liabilities	8	(900)	-
Derivative financial instruments	15	(318)	(6)
Current tax liabilities	6	-	(103)
Total current liabilities		**(22,917)**	**(22,590)**
Total liabilities		**(189,677)**	**(127,887)**
Total equity and liabilities		**(831,224)**	**(899,245)**

For and on behalf of the Board:

Tony Keohane
Chairman

Keith Harris
Member of the Board

31st March 2020
Date of Approval

Parent Statement of Changes in Equity

for the year ended 31 December 2019

	RETAINED EARNINGS €'000
Balance at 1 January 2018	(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)**
Profit for the year	(47,389)
Other comprehensive expense for the year, net of income tax	37,796
Total comprehensive income for the year	**(9,593)**
Dividends declared	139,404
Balance at 31 December 2019	**(641,547)**

All attributable to owners of the Parent.

Parent Statement of Cash Flows

for the year ended 31 December 2019

	NOTES	2019 €'000	2018 €'000
Net cash from operating activities	11	(10,545)	(9,708)
Cash flows from investing activities			
Receipt relating to the sale of Energy division		-	20,172
Payments for property, plant and equipment		(122)	(232)
Dividends received		54,404	54,189
Net cash from investing activities		**54,282**	**74,129**
Cash flows from financing activities			
Redemption of promissory notes		-	(6,874)
Subsidiary loan repayments		85,000	72,000
Repayment of lease liabilities		(757)	-
Dividends paid		(139,404)	(139,089)
Net cash used in financing activities		**(55,161)**	**(73,963)**
Net decrease in cash and cash equivalents	10	**(11,424)**	**(9,542)**
Cash and cash equivalents at 1 January	10	15,236	24,778
Cash and cash equivalents at 31 December	10	**3,812**	**15,236**

Notes to the Parent Financial Statements

Notes to the Parent Financial Statements

1. Operating Costs (excluding depreciation and amortisation)

	2019 €'000	2018 €'000
Employee benefit expense	(51,947)	(43,934)
Hired and contracted services	(6,990)	(4,940)
Materials, maintenance and sub-contractor costs	(11,950)	(10,603)
Rent, rates and facilities	(1,186)	(1,356)
Other operating expenses	(14,265)	(12,030)
Recharges to non-controlled undertakings	55,979	44,044
Recharges to subsidiary undertakings	27,074	22,725
Total	**(3,285)**	**(6,094)**

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

	2019 €'000	2018 €'000
Staff short-term benefits	(47,985)	(34,095)
Post-employment benefits - pension contributions*	(9,803)	(12,387)
Employer's contribution to social welfare	(5,580)	(3,656)
	(63,368)	**(50,138)**
Capitalised payroll and other payroll transfers	11,421	6,204
Employee benefit expense charged to profit or loss	**(51,947)**	**(43,934)**

(b) Staff short-term benefits

	2019 €'000	2018 €'000
Wages and salaries	(46,270)	(32,756)
Overtime	(33)	(31)
Allowances	(277)	(194)
Other	(1,405)	(1,114)
Total	**(47,985)**	**(34,095)**

The average number of employees employed by the Parent was 612 for 2019 (2018: 427).

*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. Depreciation and Amortisation

	2019 €'000	2018 €'000
Depreciation of Property, Plant and Equipment	(386)	(386)
Depreciation of Right of Use Assets	(1,009)	-
Total	**(1,395)**	**(386)**

5. Net Finance Costs

	2019 €'000	2018 €'000
Before remeasurements		
Finance income		
Dividends received	54,404	54,189
Total finance income	**54,404**	**54,189**
Finance costs		
Lease liability finance charge	(278)	-
Net interest on the net defined benefit liability	(1,935)	(2,125)
Other finance costs	(117)	(522)
Total finance costs	**(2,330)**	**(2,647)**
Remeasurements		
Net changes in fair value of financing undesignated derivatives	(312)	(101)
Total remeasurement items	**(312)**	**(101)**
Total		
Finance income	54,404	54,189
Finance costs	(2,642)	(2,748)
Net finance income	**51,762**	**51,441**

(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.

6. Tax

	2019 €'000	2018 €'000
Current tax credit		
Current tax	-	(285)
Adjustments in respect of previous years	52	2,561
	52	**2,276**
Deferred tax credit		
Origination and reversal of temporary differences	310	1,247
Adjustments in respect of previous years	(55)	-
	255	**1,247**
Total income tax credit	**307**	**3,523**

Reconciliation of effective tax rate

	2019 €'000	2018 €'000
Profit before tax	47,082	44,961
Taxed at 12.5% (2018: 12.5%)	(5,885)	(5,620)
Expenses not deductible for tax purposes	(319)	(106)
Income not taxable	6,801	6,773
Profits taxed at higher rates	(287)	(85)
Adjustments in respect of previous years	(3)	2,561
Total income tax credit	**307**	**3,523**

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

Current tax assets and liabilities

	31-DEC-19 €'000	31-DEC-18 €'000
Current tax assets	**198**	**-**
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 2018	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**
Recognised in income statement	878	19	(572)	(70)	255
Recognised in equity	5,400	-	-	-	5,400
At 31 December 2019	**18,576**	**(163)**	**(9,924)**	**34**	**8,523**

6. Tax (continued)

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.

	2019 €'000	2018 €'000
Capital losses	3,600	3,600

7. Property, Plant and Equipment

		31-DEC-19 €'000	31-DEC-18 €'000
Property, Plant and Equipment - owned assets		7,687	8,000
Right of use assets - leases	8	13,869	-
Property, Plant and Equipment - as presented on the balance sheet		**21,556**	**8,000**

Property, Plant and Equipment-owned assets

	LAND AND BUILDINGS €'000	PLANT, PIPELINE AND MACHINERY €'000	TOTAL €'000
Cost			
At 1 January 2018	21,345	108	21,453
Additions	-	232	232
Disposals	-	(94)	(94)
At 31 December 2018	**21,345**	**246**	**21,591**
Additions	-	122	122
Disposals	-	(69)	(69)
At 31 December 2019	**21,345**	**299**	**21,644**
Accumulated depreciation and impairment losses			
At 1 January 2018	(13,195)	(77)	(13,272)
Depreciation for the year	(343)	(43)	(386)
Disposals	-	67	67
At 31 December 2018	**(13,538)**	**(53)**	**(13,591)**
Depreciation for the year	(343)	(43)	(386)
Disposals	-	20	20
At 31 December 2019	**(13,881)**	**(76)**	**(13,957)**
Carrying amounts			
At 31 December 2018	7,807	193	8,000
At 31 December 2019	**7,464**	**223**	**7,687**

8. Leases

The Company as Lessee

The Company has entered various leasing arrangements which generally relate to the rental of buildings and land. There are no significant or unusual restrictions imposed by the terms of these leases. All lease arrangements are at an arm's length basis.

(a) Amounts recognised on the Balance Sheet

Right of use assets

	LAND AND BUILDINGS €'000	TOTAL €'000
Balance as at 1 January 2019		
- note 1e of the Group Financial Statements	10,373	10,373
Additions	4,505	4,505
Depreciation	(1,009)	(1,009)
Balance as at 31 December 2019	**13,869**	**13,869**
Lease liabilities		
Balance as at 1 January 2019		
- note 1e of the Group Financial Statements	(10,289)	(10,289)
Additions	(4,505)	(4,505)
Interest expense	(278)	(278)
Lease payments	1,035	1,035
Balance as at 31 December 2019	**(14,037)**	**(14,037)**
Analysed as follows:		
Non current		(13,137)
Current		(900)
Total		**(14,037)**

The Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the relevant business functions.

(b) Other amounts recognised in the statement of profit or loss

	2019 €'000
Expenses relating to short-term leases	-
Expenses relating to low-value assets that are not short term leases	-
Expenses relating to variable lease payments not included in lease liabilities	-
Total	**-**

9. Trade and Other Receivables

	31-DEC-19 €'000	31-DEC-18 €'000
Amounts due from subsidiary undertakings	76,458	160,031
Amounts due from non-controlled undertakings	34,620	27,408
Prepayments	4,451	3,971
Other receivables	170	295
Total	**115,699**	**191,705**
Analysed as follows:		
Non-current	5,147	5,100
Current	110,552	186,605
Total	**115,699**	**191,705**

Refer to note 17 for further details in respect of balances with subsidiary companies and non-controlled undertakings.

Expected Credit Loss Allowance

There are no material bad debt provisions recognised by the Parent and Management does not expect any significant losses of receivables that have not been provided. These expected credit losses (ECL) are measured under the general approach or the simplified approach under IFRS 9.

The maximum exposure of trade and other receivables to credit risk at the reporting date is €111.2 million (2018: €187.7 million). Prepayments of €4.5 million (2018: €4.0 million) are excluded as no credit exposure arises.

Amounts due from subsidiaries and non-controlled undertakings

At 31 December 2019, the Company had amounts due from subsidiaries and non-controlled undertakings of €111.1 million (2018: €187.4 million). Total provision in respect of these amounts is €nil (2018: €nil).

The impairment loss recognised of €nil in respect of amounts due from subsidiaries and non-controlled undertakings has been calculated using the simplified approach or the general approach as required under IFRS 9.

In determining the impairment loss under the general approach, amounts due from subsidiaries and non-controlled undertakings were classified as low credit risk receivables. There were no amounts classified as payable on demand or for which there has been a substantial increase in credit risk since initial recognition. In determining the expected credit loss (including probability of default and loss given default), regard was given to the historic performance of the relevant loan as well as forward looking information for the relevant subsidiary and non-controlled undertakings including detailed discounted cash flow forecasts.

10. Cash and Cash Equivalents

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

	31-DEC-19 €'000	31-DEC-18 €'000
Cash and cash equivalents	3,812	15,236

	2019 €'000	2018 €'000
At 1 January	15,236	24,778
Decrease in cash and cash equivalents in the statement of cash flows	(11,424)	(9,542)
At 31 December	**3,812**	**15,236**

11. Cash Generated from Operations

	NOTES	2019 €'000	2018 €'000
Cash flows from operating activities			
Profit for the year		47,389	48,484
Adjustments for:			
Depreciation and amortisation	4	1,395	386
Retirement benefit cost	12	4,046	7,660
Net finance income	5	(51,762)	(51,441)
Income tax credit	6	(307)	(3,523)
		761	1,566
Working capital changes:			
Change in trade and other receivables		(338)	(5,594)
Change in trade and other payables		(7,987)	(5,470)
Cash from operating activities		**(7,564)**	**(9,498)**
Interest paid		(2,732)	(123)
Income tax paid		(249)	(87)
Net cash from operating activities		**(10,545)**	**(9,708)**

12. Retirement Benefit Obligations

Refer to note 20 of the Group Financial Statements for disclosure in respect of the Group's retirement benefit obligations.

13. Contingencies and Capital Commitments

Ervia Parent delivers certain centrally managed IT and facilities capital projects on behalf of Irish Water and Gas Networks Ireland. Directly attributable costs are recharged to Irish Water and Gas Networks Ireland based on appropriate cost apportionment drivers, with no overhead or margin applied. At 31 December 2019, Ervia Parent had entered into contractual commitments amounting to €3.4 million (2018: €0.5 million) in respect of these centrally managed projects. The relevant capital commitments at 31 December 2019 attributable to Irish Water is estimated at €2.5 million (2018: €0.3 million) and the relevant capital commitments attributable to Gas Networks Ireland is estimated at €0.9 million (2018: €0.2 million). These estimated capital commitments are included within the overall capital commitments notes in the respective financial statements of Irish Water and Gas Networks Ireland.

Ervia Parent also provides resourcing and contractor support to the delivery of IT, telecommunication and network infrastructure capital projects that are managed directly by Irish Water and Gas Networks Ireland. These projects are managed directly by Irish Water and Gas Networks Ireland from an overall operational delivery and budgetary control perspective. Directly attributable costs are recharged to Irish Water and Gas Networks Ireland with no overhead or margin applied. At 31 December 2019, Ervia Parent had entered into contractual commitments amounting to €5.9million (2018: €1.4 million) in respect of these projects. The relevant capital commitments at 31 December 2019 attributable to Irish Water was €4.2 million (2018: €0.9 million) and the relevant capital commitments attributable to Gas Networks Ireland was at €1.7 million (2018: €0.5 million). These capital commitments are included within the overall capital commitments notes in the respective financial statements of Irish Water and Gas Networks Ireland.

14. Trade and Other Payables

	31-DEC-19 €'000	31-DEC-18 €'000
Trade payables	(5,164)	(5,475)
Accruals	(15,490)	(15,372)
Other payables	(6,895)	(7,831)
Amounts due to subsidiary companies	(85)	(85)
Taxation and social insurance creditors[1]	(212)	(634)
Total	**(27,846)**	**(29,397)**
Analysed as follows:		
Non-current	(6,147)	(6,916)
Current	(21,699)	(22,481)
Total	**(27,846)**	**(29,397)**
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	(1,339)	(1,107)
VAT	1,127	473
Total	**(212)**	**(634)**

15. Financial Risk Management and Financial Instruments

This note presents information about the Parent's financial instruments and financial risk management.

	FAIR VALUE HIERARCHY	FVTPL - UNDESIGNATED €'000	FVTPL - DESIGNATED €'000	FVTOCI €'000	AMORTISED COST €'000	TOTAL €'000
At 31 December 2019						
Financial assets						
Trade and other receivables[1]		-	-	-	111,248	111,248
Cash and cash equivalents		-	-	-	3,812	3,812
Total financial assets		**-**	**-**	**-**	**115,060**	**115,060**
Financial liabilities						
Foreign exchange rate contracts	Level 2	(318)	-	-	-	(318)
Trade and other payables[2]		-	-	-	(12,144)	(12,144)
Total financial liabilities		**(318)**	**-**	**-**	**(12,144)**	**(12,462)**
Net financial assets		**(318)**	**-**	**-**	**102,916**	**102,598**
At 31 December 2018						
Financial assets						
Trade and other receivables[1]		-	-	-	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[2]		-	-	-	(13,391)	(13,391)
Total financial liabilities		**(6)**	**-**	**-**	**(13,391)**	**(13,397)**
Net financial assets		**(6)**	**-**	**-**	**189,579**	**189,573**

[1] Prepayments have been excluded as these are not classified as a financial asset.

[2] Accrued expenses and taxation liabilities have been excluded as these are not classified as financial liabilities.

Financial risk management

Refer to note 25 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-19 €'000	31-DEC-18 €'000
Trade and other receivables (excluding prepayments)	111,248	187,734
Cash and cash equivalents	3,812	15,236
Derivative financial instruments	-	-
Total	**115,060**	**202,970**

15. Financial Risk Management and Financial Instruments (continued)

(i) (a) Treasury related credit risk

Refer to note 25 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.

(ii) Liquidity risk

Refer to note 25 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 2019						
Foreign exchange rate contracts	(318)	(318)	(318)	-	-	-
Net derivative financial assets	**(318)**	**(318)**	**(318)**	**-**	**-**	**-**
Trade and other payables	(12,144)	(12,144)	(5,997)	(559)	(5,588)	-
Non-derivative financial liabilities	**(12,144)**	**(12,144)**	**(5,997)**	**(559)**	**(5,588)**	**-**
Net financial liabilities	**(12,462)**	**(12,462)**	**(6,315)**	**(559)**	**(5,588)**	**-**
At 31 December 2018						
Foreign exchange rate contracts	(6)	(6)	(6)	-	-	-
Net derivative financial assets	**(6)**	**(6)**	**(6)**	**-**	**-**	**-**
Trade and other payables	(13,391)	(13,391)	(6,225)	(815)	(5,910)	(441)
Non-derivative financial liabilities	**(13,391)**	**(13,391)**	**(6,225)**	**(815)**	**(5,910)**	**(441)**
Net financial liabilities	**(13,397)**	**(13,397)**	**(6,231)**	**(815)**	**(5,910)**	**(441)**

(iii) Market risk

Refer to note 25 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).

15. Financial Risk Management and Financial Instruments (continued)

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. Subsidiaries

	€'000
Cost	
At 31 December 2018	681,436
At 31 December 2019	**681,436**
Carrying amount	
At 31 December 2018	681,436
At 31 December 2019	**681,436**

The Parent's subsidiary is Gas Networks Ireland.

17. Related Parties

The related party income/(expense) transaction values for 2019 and 2018 are detailed below for transactional and support service agreement costs:

		2019 €'000	2018 €'000
Irish Water	(iv) (a)	55,979	44,044
Subsidiaries	(vii) (a)	27,074	22,725
		83,053	**66,769**

The related party balances receivable/(payable) are detailed below:

	31-DEC-19 €'000	31-DEC-18 €'000
Irish Water	34,620	27,408
Subsidiaries	76,373	159,946
	110,993	**187,354**

(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 2019.

(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 27 of the Group Financial Statements.

Ervia Parent entered into transactions with Irish Water as follows:

(a) Transactional and support service agreement costs

Refer to (vii) (a) below for a description of the services provided by Ervia Parent to Irish Water. Refer to (vii) (b) for details of cost recharges to Irish Water and the basis for apportionment of these costs.

17. Related Parties (continued)

(b) Capital expenditure costs

Refer to (vii)(c) below for a description of the capital expenditure costs incurred by Ervia Parent and recharged to Irish Water.

(c) Pension costs

Refer to (vii)(d) below for a description of the defined benefit pension contribution costs incurred by Ervia Parent and recharged to Irish Water.

(v) Gas Networks Ireland

The Parent entered into transactions with subsidiaries as follows:

(a) Transactional and support service agreement costs

Refer to (vii) (a) below for a description of the services provided by Eriva Parent to Gas Networks Ireland. Refer to (vii) (b) for details of cost recharges to Gas Networks Ireland and the basis for apportionment of these costs.

(b) Capital expenditure costs

Refer to (vii) (c) below for a description of the capital expenditure costs incurred by Ervia Parent and recharged to Gas Networks Ireland.

(c) Dividend

The Parent received an annual dividend of €54.4 million from Gas Networks Ireland during 2019. In 2018 the Parent received a dividend of €49.1 million with the remaining €5.1m receivable in 2023.

(vi) Board members' interests

The Board members had no beneficial interests in the Parent at any time during the year or at 31 December 2019.

17. Related Parties (continued)

(vii) Transactions with Irish Water and subsidiaries

(a) Transactional and support service costs

Ervia Parent provides strategic, governance, risk management, capital delivery management and transactional and support services to Irish Water and Gas Networks Ireland, 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.

TRANSACTIONAL AND SUPPORT SERVIES PROVIDED BY ERVIA PARENT

BUSINESS SERVICES	GROUP	OTHER
Finance transaction services	Governance and control	Major Projects (Delivery of major capital infrastructure projects)
Procurement services	Financial planning	Supply Chain
HR services	Risk management	
IT services	Group services	
Facilities services	Stakeholder relationships	
Management and administration		

(b) Operating Costs incurred by Ervia Parent and recharged to Group companies

	2019 €'000	2018 €'000
Employee benefit expense	(51,947)	(43,934)
Hired and contracted services	(6,990)	(4,940)
Materials, maintenance and sub-contractor costs	(11,950)	(10,603)
Rent, rates and facilities	(1,186)	(1,357)
Other operating expenses	(14,265)	(12,030)
Sub-total before recharges	**(86,338)**	**(72,864)**
Recharges to non-controlled undertakings - Irish Water	55,979	44,044
Recharges to subsidiary undertakings - Gas Networks Ireland	27,074	22,726
Total after recharges[1]	**(3,285)**	**(6,094)**

[1] Total operating costs after recharges primarily represent non cash pension costs, which are not recharged to Ervia Group companies.

17. Related Parties (continued)

Basis for the apportionment of Ervia Parent Operating Costs

(1) Operating costs incurred by the Ervia Parent in the provision of services to Irish Water and Gas Networks Ireland are recovered on a costs recoupment basis.

(2) Operating costs incurred in the provision of such services are recharged to Irish Water and Gas Networks Ireland based on a cost causation basis, reflective of the underlying cost driver associated with each of cost centres within Ervia Parent. For example, the relevant cost driver for the Finance Transaction Services - Accounts Payable cost centre has been identified as the "number of invoices processed". Therefore the costs of the Accounts Payable cost centre are recharged to Irish Water and Gas Networks Ireland based on the relative proportion of number of invoices processed.

(3) The identified cost drivers for each individual cost-centre are reviewed annually to ensure that operating costs are recharged in line with the underlying levels of activity.

(4) Operating costs directly attributable to Irish Water and Gas Networks Ireland are either charged directly or are recharged in full.

(5) The overarching objective of the apportionment of operating costs as set out above is to ensure operating costs are recharged to Irish Water and Gas Networks Ireland based on a fair and transparent methodology, reflective of the underlying cost drivers.

(c) Capital expenditure costs incurred by Ervia Parent and recharged to Irish Water and Gas Networks Ireland

Ervia Parent transacts with Irish Water and Gas Networks Ireland in respect of centrally delivered and business delivered projects including the payroll costs incurred by the Major Projects area. The directly attributable Irish Water and Gas Networks Ireland costs are re-charged on a monthly basis with no overhead or margin applied by Ervia Parent. Capital Expenditure costs recharged in 2019 were as follows, Irish Water €21.7m and Gas Networks Ireland €6.7m. (2018: Irish Water €15.2m and Gas Networks Ireland €5.2m). Balances in relation to these tranactions are included in the table above.

(d) 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 2019 (as set out in note 20 of the Group Financial Statements) includes €1.0 million (2018: €1.0 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.

Notes

ervia