gasnetworks.ie

Gas Networks Ireland

Directors' Report and Financial Statements 2018

Contents

Directors and Other Information

Directors	Mike Quinn (Chairman) Denis O'Sullivan (appointed 27 March 2018) Liam O'Sullivan Brendan Murphy Michael O'Sullivan Sean Casey (resigned 19 January 2018)
Secretary	Liam O'Riordan
Registered Office	Gasworks Road Cork Ireland
Solicitors	McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2
Auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm 6 Lapp's Quay Cork
Company Number	555744

Directors' Report

The Directors of Gas Networks Ireland ("the Directors") present their Directors' report and Group financial statements.

Directors' Report (continued)

Principal Activities and Company Overview

Gas Networks Ireland ("the Company") was incorporated on 13 January 2015 as a 100% owned subsidiary company of Ervia and commenced trading on 1 August 2015. GNI (UK) Limited, Gas Networks Ireland (IOM) DAC and Gaslink Independent System Operator DAC are subsidiaries of the Company and form part of the Gas Networks Ireland Group ("the Group"), with Ervia as ultimate parent of the Group.

The Company is a regulated network utility, regulated under licence by the Commission for Regulation of Utilities ("CRU").

The principal activity of the Company is the transportation of natural gas on behalf of all gas customers. The Company owns, operates, builds and maintains the natural gas network in Ireland. The Company is a progressive, trusted and responsible gas infrastructure company responsible for ensuring that natural gas customers receive a safe, efficient and secure supply of natural gas, 24 hours a day, 365 days a year.

The Group owns and maintains a world-class transmission and distribution gas network of 14,390 kilometres of pipelines including two sub-sea interconnectors and pipelines in Scotland, Northern Ireland and the Isle of Man.

Natural gas is of key strategic importance to the Irish economy, representing approximately 30% of Ireland's primary energy mix and generating approximately 52% of Ireland's electricity. As natural gas is the cleanest fossil fuel, it is the most efficient accompaniment to intermittent renewables such as wind and solar. Currently available in 21 counties in Ireland, with 700,000 business and residential customers dependent on it every day, we believe that natural gas has a major role to play in helping Ireland meet its environmental targets in the most cost effective manner possible in the short, medium and long-term.

Safety and a strong customer focus are at the heart of how the business operates, along with a commercial ethos, reflecting its responsibility for a major gas infrastructure that contributes to Ireland's social and economic progress and environmental targets.

Aurora Telecom, a trading name of the Company, acts as a wholesale, open-access service provider for telecoms operators and business customers, providing dark-fibre and managed bandwidth services.

Accounting Records

The Directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at Gasworks Road, Cork.

Directors' Report (continued)

Results for the Year and Dividends

The results for the year are set out in the income statement and in the related notes. Revenue for the year was €487 million (2017: €473 million) and profit after tax was €123 million (2017: €125 million).

Following approval by the Directors, a dividend in the amount of €49.1 million was paid to Ervia during the year.

Research and Development

Gas Networks Ireland is involved in innovative projects to develop the energy sector. These include projects in the areas of Compressed Natural Gas and Renewable Gas. These are considered below under 'Gas Advocacy'.

Review of the Business and Future Developments

Gas Networks Ireland is committed to the highest possible safety standards and during 2018 continued to manage all aspects of operations in a safe and environmentally-responsible manner.

In 2018, the total amount of gas transported through the gas network for Ireland, Northern Ireland and the Isle of Man was approximately 74.44TWh, an increase of 0.8% on 2017. Of this, 78% was delivered for use in the Republic of Ireland with the remaining 22% transported to end-users in the Isle of Man and to Northern Ireland.

During the financial year, 56% of all gas requirements for the Republic of Ireland were supplied by the Corrib gas field, 39% were met from UK imports with the remaining gas supplied from indigenous reserves in Inch, off the County Cork coast.

Price Control

In August 2017, the CRU issued its decision regarding Price Control four (PC4) determining the level of revenue that Gas Networks Ireland is allowed to recover to run its business from October 2017 to September 2022. The decision means that Gas Networks Ireland will collect a total revenue of €1,913.6 million over the period.

Regulations and Tariffs

The EU continued to develop a single internal energy market in 2018 with further studies planned in 2019 which will inform the new gas package expected to be delivered in 2020. The Company is liaising with the CRU and the Department of Communications, Climate Action and Environment regarding the Security of Gas Supply Regulations ("the Regulations"), which entered into force in November 2017.

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

Directors' Report (continued)

network code enhances tariff transparency by harmonising basic principles and definitions used in tariff calculation, and includes a mandatory comparison of national tariff-setting methodologies against a benchmark methodology. It also stipulates publication requirements for information on tariffs and revenues of transmission system operators.

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

The Company has developed market arrangements for the first injection of renewable gas to the network, in addition to implementing a Green Gas Certification scheme in Ireland, which ensures renewable gas can be certified and contribute towards Ireland's climate change targets.

Funding

The Group's funding position remained strong in 2018. In December 2018, the Group agreed a €100m financing facility with the European Investment Bank, this facility will underpin continued investment in the gas network. At 31 December 2018, the Group had €1,622.2 million in committed facilities (2017: €1,525.6 million). Borrowings at 31 December 2018 external to the Ervia Group were €1,191.8 million (2017: €1,185.5 million). 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.

Brexit

Throughout 2018 the Company continued its close liaison with all relevant stakeholders (including other pipeline operators) in Ireland, UK and the EU in relation to the potential impact of Brexit. A key focus for 2018 was ensuring that the Company is prepared for a 'no deal' Brexit and that all the necessary arrangements are in place prior to the withdrawal of the UK from the EU.

Gas Advocacy

During 2018 the Company progressed plans for a national network of 70 Compressed Natural Gas ("CNG") refuelling stations. CNG is a global alternative to diesel or petrol as a transport fuel and contributes to a clean energy project for Ireland's transport sector, in particular heavy goods vehicles and buses. Ireland's first publicly-accessible high capacity fast fill CNG station was commissioned in 2018, with two further stations in the pre-construction phase and scheduled for completion in 2019. Four additional stations (public and private) are targeted for delivery in 2019. Up to 40 heavy goods vehicles have been supported through the CNG vehicle support scheme.

Directors' Report (continued)

Ireland's first renewable gas injection facility at Cush, County Kildare commenced construction in July and was completed in December 2018. Commissioning of the facility will take place in 2019 following approval of license updates from the CRU. It has the capacity to inject up to 130GWh per annum of renewable gas into the grid from circa four Anaerobic Digestion (AD) facilities within a 50km radius. The first renewable gas will be produced at the Green Generation facility in Nurney, County Kildare. In 2018, the company also commenced the design of a large capacity Central Grid Injection facility, to be located in the Mitchelstown area with a capacity to inject over 560GWh per annum from circa 20 farm based AD facilities within a 50km radius. Over the next five years, the Company plans to construct a further 8 injection points with a combined annual capacity of 3,000GWh.

Capital expenditure of €143 million (2017: €147 million) covered ongoing programmes to improve the safety and reliability of the network in 2018. In addition we delivered over 38,000 planned maintenance work orders across transmission and distribution networks. Key projects completed in 2018 included a 40km feeder main bringing natural gas to Kerry Ingredients and the town of Listowel, the 50km twinning pipeline project in Scotland and capital works at Brighouse Bay and Beattock compressor stations in Scotland, overhauling the gas cooling and air-intake systems.

Gas Networks Ireland is committed to delivering for customers first. In 2018, the Company delivered high quality services to 700,000 domestic and commercial customers. During this period 83,710 customer appointments were made and a 98.1% compliance rate was achieved in meeting those appointments. Over 2.1 million meters were read during the year and our Contact Centre handled over 500,000 customer contacts. We met our customer satisfaction score targets across all activities surveyed and won a number of awards within the wider customer service industry. Consultation with stakeholders and customer journey mapping were also carried out to enhance our customers' experience further. The Company continues to help customers manage their energy costs through the facilitation of supplier switching and the installation of prepayment meters, which now constitute 16.6% of the total residential meter population. The Company exchanged in excess of 27,000 meters in 2018 under its domestic meter replacement programme.

Directors' Report (continued)

Key Performance Indicators

The Directors monitor performance using a suite of key performance indicators outlined below.

Key Performance Indicator	FY 2018	FY 2017
Total Lost Time Incident Frequency Rate – Employees (>1 day #/100k hours)*	0.36	0.23
Emergency Response	32 mins	28 mins
Customer Service– First Contact Resolution	88.5%	87%
New Connections (volume contracted GWh)	790	951
Credit Rating Moody's	A3 Stable	A3 Stable
Credit Rating S&P	A Stable	A Stable
EBITDA	€301m	€305m

* We use the Lost Time Incident Frequency Rate to track the number of employee accidents per 100,000 hours worked that results in a staff member needing to take >1 day off work

Going Concern

The Directors have a reasonable expectation that the Group and the Company will continue to meet liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Group has €457 million in undrawn bank facilities available together with strong profitability forecasts for 2019, to meet any liabilities as they fall due. Accordingly the Directors continue to adopt the going concern basis in preparing the Company's financial statements.

Principal Risks and Uncertainties

The regulated and operational complexity of our business exposes the Company to a number of risks. Understanding our risks will enable the Company to make informed decisions and ultimately create added value for our stakeholders.

The Company has a comprehensive risk framework supported by Ervia's risk policy and procedures. This includes processes to identify key risks, mechanisms to design and implement controls and associated actions to manage key risks.

The Company has a quarterly risk governance process in place which:

- undertakes a review of the internal and external environment to assess new and emerging risks, high impact but low probability risks and any changes to known risks;
- considers internal and external stakeholder management, delivery of the Company's strategy and ongoing business operations;
- identifies the nature, extent and financial implication of risks facing the Company;

Directors' Report (continued)

- assesses the impact and likelihood of identified risks occurring;
- assesses the Company's ability to manage and mitigate the risks that may occur through putting appropriate controls and actions in place; and
- reports the Group risk profile to the Ervia Group Risk Management Committee and onwards to the Audit and Risk Committee of the Ervia Board.

In determining the Company's principal risks and uncertainties, factors such as the external environment, our internal and external stakeholder engagement and the enterprise risk management approach are key considerations. The Directors consider that the following are the principal risk factors that could materially and adversely affect the Company's future operating profits or financial position.

Health, Safety and Environment: A major health and safety incident could cause significant impact and harm to an employee, contractor or the general public. An environmental issue could result in contamination, public safety or a security of supply risk. The Company is committed to the highest possible safety standards and to managing all aspects of operations in a safe and environmentally responsible manner. The Company operates a comprehensive safety management system that ensures Gas Networks Ireland designs, constructs, operates and maintains the network through the use of technically competent personnel to provide the highest levels of safety performance. The Company actively promotes enterprise wide safety initiatives.

Financial Risk Management and Exposures: Gas Networks Ireland's activities expose it to a number of financial risks: credit risk, liquidity risk, currency risk and interest rate risk. Global macro-economic risks could have an adverse impact on the achievement of the Company's business objectives.

Financial risk management policies have been established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. These financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and Gas Networks Ireland's activities. Refer to note 23 of the financial statements for a full analysis of the Company's financial risk management objectives, policies and exposures.

Regulatory Environment: Gas Networks Ireland's business activities are subject to a broad and developing range of legislative provisions and regulation. There are dedicated resources and programmes in place to manage this, with a pro-active approach to engaging with regulatory authorities in Ireland, Northern Ireland, Great Britain and the EU.

The decision by the UK to exit the EU has created some uncertainty in the regulatory environment. A disorderly Brexit would cause significant disruption to Gas Networks Ireland. A steering group has been established to examine the impact of Brexit on the organisation. A worst case scenario of a 'no deal' Brexit has been assessed to determine all possible outcomes. This analysis

Directors' Report (continued)

has reinforced the opinion that gas flows will not be effected. The effects on the Company's supply chain is being managed by a working group at Ervia Group level. Gas Networks Ireland is continuing to engage with affected stakeholders and regulatory authorities to minimise any potential disruption to the organisation and its stakeholders.

Network Security of Supply: The inability of Gas Networks Ireland to maintain sufficient gas supply to meet existing and future demand could result in reputational and financial damage. Ireland's 2018 National Risk Assessment examined the Company's ability to meet gas demand in the event of failure of the largest infrastructure supplying the country and acknowledged Gas Networks Ireland has increased security of supply to Ireland with the a commissioning of a 50km on shore pipeline in South West Scotland. Gas Networks Ireland continue to ensure that a resilient, robust and safe gas network is maintained to ensure security of supply to customers through appropriate and efficient investment.

Critical IT Infrastructure: A cyber-attack or a data breach on information technology assets as a result of an external attack or internal data leakage could result in reputational and financial damage. Dedicated resources manage our critical IT infrastructure, with a strong focus on cyber-security and data protection. Managing our critical IT infrastructure and our resilience to a cyber-attack or a data breach is a priority, in parallel with ensuring the availability of core IT systems necessary to support key business operations. In line with the external environment, the Company continues to enhance its security around IT infrastructure. There is a constant focus on increasing security awareness and implementing appropriate IT security controls across the organisation.

Growth and Decarbonisation: 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. Gas Networks Ireland is committed to becoming a leader in compliant, sustainable infrastructure development and service provision in Ireland.

Gas Networks Ireland has established CNG as an alternative fuel source for heavy goods vehicles, supporting decarbonisation in the transportation sector and is driving the renewable agenda through the introduction of biogas injection facilities on its network. Gas Networks Ireland is currently exploring the feasibility of carbon capture and storage technologies for integration into the gas grid. The Company is dedicated to transitioning to a renewable gas network to support organisational growth and a sustainable low-carbon economy.

Third Party Service Delivery: Gas Networks Ireland relies on a number of key contractors and suppliers to deliver its annual maintenance and capex programmes. Failure to deliver these critical programmes could lead to an operational impact for the gas network. The Company is actively addressing the risk through close relationship management and the preparation of detailed contingency arrangements.

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Customer Experience: Gas Networks Ireland is committed to putting our customers first and maintaining the trust and support of our customers. The Company continuously seeks to improve the levels of service that it provides on a daily basis to customers, and aims to achieve service excellence in all aspects of the business. Gas Networks Ireland's Customer Charter outlines the Company's commitment to our customers. The Company has a comprehensive and clear Stakeholder Engagement Strategy and Brand Strategy in place.

Corporate Governance

Gas Networks Ireland is a 100% owned subsidiary of Ervia. Ervia operates as a group with five divisions in a single multi-utility model. Gas Networks Ireland and Irish Water are the operating utility divisions. Major Projects delivers key national infrastructural projects. Business Services provides all transactional and support services to the Ervia Group. Ervia Group Centre provides corporate oversight and governance for all of the Ervia Group activities.

The Code of Practice for the Governance of State Bodies ("the Code") sets out the principles of corporate governance which the boards of State bodies are required to observe. The Company, as a subsidiary of Ervia, has appropriate measures in place to ensure compliance with the relevant provisions of the Code. The Directors are responsible for ensuring said compliance. In accordance with Section 1.9 of the Business and Financial Reporting requirements of the Code, the Company reports to Ervia on its compliance with the Code.

The Company meets the definition of a 'relevant company' under Section 167 of the Companies Act 2014. Section 167 requires a company that meets the definition of a 'relevant company' to establish an Audit and Risk Committee or to explain why such a committee has not been established. An Audit and Risk Committee is established at Ervia Group level, due to the unitary board structure adopted by Ervia. Ervia has appropriate committees in place which act in respect of the entire Ervia Group and therefore no such committees have been established at the Company level. From a governance perspective, Company matters are overseen by both the Gas Networks Ireland Board and the Ervia Board.

For the financial year ending 31 December 2018, the Board of Ervia was assisted in the discharging of its obligations through the delegation of certain roles and responsibilities to three committees as set out in their terms of reference;

- Audit and Risk Committee
- Investment/Infrastructure Committee
- Remuneration Committee

The Committees assist the Ervia Board by giving detailed consideration to business, operational and financial issues, reporting to the Ervia Board with any necessary recommendations. The Ervia Audit and Risk Committee met 5 times during the year, the Remuneration Committee met 8 times during the year and the Investment/Infrastructure Committee met 11 times during the year.

Directors' Report (continued)

The Company meets the definition of a traded company under Section 1372 of the Companies Act 2014 on the basis that it is a designated activity company that has debentures admitted to trading on a regulated market in an EEA State and therefore complies with the applicable provisions of Section 1373 of the Companies Act 2014.

EU Non-Financial Reporting Directive

The EU Non-Financial Reporting Directive (2014/95) as transposed by the EU (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 as amended by the EU (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (Amendment) Regulations 2018 ("the Regulations") requires large companies to report a wide range of non-financial information in their Directors' report. The Company meets the definition of an 'applicable company' for the purpose of the Regulations. Under the Regulations, companies are required to set out their policy position and performance in relation to environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters. In 2018, Gas Networks Ireland undertook a complete and comprehensive review and refreshed its current approach to non-financial reporting and performance measurement against the provisions set out in the Regulations. The Company does not fall within the scope of the diversity reporting component of the Regulations as it does not meet the definition of a large traded company.

The Company has set out the non-financial information required under the Regulations in a separate statement on our website www.gasnetworks.ie.

Directors and Secretary and their Interests

The Directors are outlined on page 2.

The Chairman of the Company's Board is Mike Quinn. Sean Casey resigned from the Board on 19 January 2018. Denis O'Sullivan was appointed to the Board with effect from 27 March 2018.

The Secretary of the Company is Liam O'Riordan. Interests of the Directors and Secretary are disclosed in note 27 of the financial statements.

Subject to receipt of Ministerial consent, Ervia has the power to appoint and remove Directors of the Company.

On appointment, Directors are provided with detailed briefing documents, governance, financial and operational information. Directors have access to training programmes and the ongoing development needs of Directors are kept under review by the Chairman and the Company Secretary.

In accordance with the Articles of Association, the Directors are not entitled to receive fees. Remuneration of the Directors, as disclosed in note 27 of the financial statements, represents

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an apportionment of total remuneration earned in their capacity as salaried employees, based on services provided to the Group. The remuneration of the Managing Director of the Company is outlined in note 4 of the financial statements.

The schedule of attendance at Company Board meetings is outlined below.

Director	Meetings (Attended/Eligible)
Mike Quinn (Chairman)	14/15
Denis O'Sullivan	10/12
Brendan Murphy	13/15
Liam O' Sullivan	15/15
Michael O'Sullivan	12/15
Sean Casey (resigned 19 January 2018)	-

Roles and Responsibilities of the Directors

The Directors of the Company have an appropriate balance of skills, experience and knowledge of the Company to allow them to discharge their duties and responsibilities effectively.

The Directors' role is to provide leadership and direction to the Company within a framework of prudent and effective controls which enables risk to be assessed and managed, and to satisfy itself, with reasonable assurance, that such controls are adequate to secure compliance with statutory and governance obligations.

The responsibilities of the Directors include the approval of the annual reports and accounts, the annual business plan and safety policies and procedures. Activities of the Directors during the year included the review and approval of the Director's Compliance Policy Statement, approval of the financial statements and interim un-audited financial statements and approval of banking arrangements for the Company.

Directors Responsibility Statement for Director's Report and Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and the Company as at the financial year end date and of the profit or loss of the Group for the year and otherwise comply with the Companies Act 2014.

Directors' Report (continued)

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies for the Group and the Company financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Group to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosures required under the Code of Practice for the Governance of State Bodies

The Board is responsible for ensuring that Gas Networks Ireland has complied with the requirements of the Code. The following disclosures are required by the Code:

A. Analysis of Employee Benefits

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

	2018 No. of employees	2017 No. of employees
€50,000-€75,000	219	225
€75,001-€100,000	120	119
€100,001-€125,000	64	72
€125,001-€150,000	18	17
€150,001-€175,000	8	9
€175,001 and above	5	4

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.

Directors' Report (continued)

B. Consultancy Costs

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

	2018 €'000	2017 €'000
Legal advice	240	987
Financial advice	618	1,093
Human resources	-	227
Business improvement/development	1,062	113
Other	655	2,277
Total consultancy costs	**2,575**	**4,697**
Capitalised	229	63
Income statement	2,346	4,634
Total consultancy costs	**2,575**	**4,697**

C. Legal Costs and Settlements

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

	2018 €'000	2017 €'000
Legal fees – legal proceedings	372	1,107
Conciliation	-	42
Settlements	603	263
Total	**975**	**1,412**
Number of legal cases	5	10

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

Note 2: The number of cases relate to cases initiated by Gas Networks Ireland or legal proceedings taken against it and excludes insurance proceedings and wayleave conciliations.

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D. Travel and Subsistence Expenditure

Travel and subsistence expenditure is categorised as follows:

	2018 €'000	2017 €'000
Domestic		
Board	-	-
Employee	1,549	1,721
International		
Board	-	-
Employees	191	100
Total	**1,740**	**1,821**

Travel and subsistence expenditure by Gas Networks Ireland Directors in 2018 was €nil (2017: €nil). Travel and subsistence expenditure incurred by Gas Networks Ireland Directors is deemed to be incurred in their capacity as employees.

E. Hospitality

The income statement includes the following hospitality expenditure:

	2018 €'000	2017 €'000
Staff hospitality	104	122
Client hospitality	62	84
Total	**166**	**206**

Modern Slavery

The Company prides itself on conducting its business ethically and responsibly. The UK Modern Slavery Act 2015 imposes obligations on organisations of a certain size which carry on business in the United Kingdom. Modern slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. The Company and its subsidiary GNI (UK) Limited are applicable entities for the purposes of the Modern Slavery Act and are fully supportive of the aims of the Act.

Directors' Report (continued)

Transparency

Freedom of Information

The Company is subject to the provisions of the Freedom of Information Act 2014 ('FOI Act'). A Model Publication Scheme has been prepared and published by the Company in accordance with the requirements of Section 8 of the FOI Act. The scheme is accessible through the Company's website www.gasnetworks.ie . Under the scheme, the Company publishes as much information as possible in an open and accessible manner on a routine basis outside freedom of information, having regard to the principles of openness, transparency and accountability.

Data Protection

In order for the Company to provide its customers with an effective service, and to enable the Company to establish and manage the relationship with customers, the Company needs to collect and use data relating to the customer. The Company is committed to protecting the rights and privacy of its customers in accordance with Data Protection Law. An organisation wide project was undertaken in 2017/2018 to ensure compliance with the General Data Protection Regulation ((EU Regulation 2016/679) ahead of its commencement on May 25th 2018.

Regulation of Lobbying

In accordance with the requirements of the Regulation of Lobbying Act 2015, the Company is registered on the lobbying register maintained by the Standards in Public Office Commission and has made the required returns for the return periods in 2018.

Creditor Payment Policy/Prompt Payments

Appropriate internal financial controls are in place within the Company to ensure compliance with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2012. Controls include setting clearly defined roles and responsibilities, monthly reporting and a review of payment practices. Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on or before such dates. These procedures provide reasonable assurance against material non-compliance with the Regulations. No interest in respect of late payments was paid in 2018.

The Company 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.

Directors' Report (continued)

Statement on the System of Internal Control

Scope of Responsibility

The Directors acknowledge their responsibility for ensuring that an effective system of internal control is maintained and operated. This responsibility takes account of the requirements of the Code.

Purpose of the System of Internal Control

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

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

Management of Risk

A unitary Board structure has been adopted by Ervia which takes ultimate responsibility for the governance of Ervia and its subsidiaries including Gas Networks Ireland. Appropriate Committees are in place at the Ervia Group level that act in respect of the entire Ervia Group. Ervia has an Audit and Risk Committee ("the ARC") comprising 5 non-executive Board members who have the necessary expertise required for the role. The ARC informs the GNI Board on an exceptions only basis of matters which arise during its review of the financial statements of GNI which are material to the approval of the GNI Financial Statements. The duties and responsibilities of the ARC in relation to Ervia enterprise-wide risk management, are to assist and make recommendations to the Ervia Board on the discharging of the Ervia Board's responsibilities as they relate to this area. From a governance perspective, GNI matters are overseen by both the GNI Board and the Ervia Board.

All employees of Gas Networks Ireland have a responsibility for the effective management of risk which includes designing, operating and monitoring the systems of internal control for Gas Networks Ireland. The Ervia Group CEO is the accountable executive with ultimate responsibility. The Ervia Group CEO delegates clear roles and responsibilities for effective risk management and for ensuring the systems of internal control are operating effectively to his Executive Team and their reports.

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

Directors' Report (continued)

Ervia also has an established Risk Management function which is adequately resourced and 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 Ervia Group including Gas Networks Ireland. The Ervia Group Head of Risk Management reports to the Ervia Group Chief Financial Officer and attends all ARC meetings.

In particular, the Risk Management function:

- ensures that adequate and consistent processes and oversight are in place for identifying, measuring, managing, monitoring and reporting of risks to which Gas Networks Ireland is exposed;
- ensures that oversight is maintained and an assessment is undertaken of the Gas Networks Ireland 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; and
- embeds an appropriate risk management culture.

Gas Networks Ireland 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 the Ervia Group developed the Integrated Assurance Forum ("IAF") which reports to the Ervia Group Chief Financial Officer. A revised integrated assurance process was rolled out across the Ervia Group in 2017 and continued to evolve in 2018.

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

Risk and Control Framework

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

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

Directors' Report (continued)

The ARC provides oversight of these activities on behalf of the Ervia Board and is responsible for assisting the Ervia Board in discharging its responsibilities as they relate to this area. On a quarterly basis the ARC performs, on behalf of the Ervia Board, a substantive review of the Ervia Group Risk Register prepared by management, which includes risks relating to Gas Networks Ireland, ensuring oversight of the key risks and reviewing the effectiveness of management's responses to key risk exposures facing the Ervia Group. The ARC also reviews the overall integrity of the risk management system including the effectiveness of the risk function. The Ervia Group maintains a comprehensive suite of formal policies and procedures, to ensure that appropriate delegation practices are implemented across the Ervia Group. The policies and procedures include the setting and maintenance of appropriate authorisation limits, the establishment of appropriate segregation of duties and the documentation of processes and controls that are focused on preventing and detecting fraud.

The Gas Networks Ireland system of internal control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- Responsibility by management at all levels within Gas Networks Ireland and Ervia for internal control and risk management over respective business functions;
- Clearly defined organisational structure, with defined authority limits and reporting mechanisms to higher levels of management and to the Gas Networks Ireland Board as well as Ervia management and the Ervia Board;
- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Gas Networks Ireland Board;
- Comprehensive system of financial reporting;
- Comprehensive set of policies and procedures relating to operational and financial controls, including capital expenditure. Large capital projects require Ervia Board approval, and are closely monitored on an ongoing basis by the Ervia Investment/Infrastructure Committee;

Directors' Report (continued)

- Comprehensive set of management information and performance indicators is produced quarterly, enabling progress against longer-term objectives and annual budgets to be monitored, trends evaluated and variances acted upon;
- A risk management process enabling identification and assessment of risks that could impact achievement of agreed business objectives and ensuring appropriate mitigating measures and controls are put in place;
- A Group Risk Management Committee chaired by the Chief Executive Officer which reports to the Ervia Audit and Risk Committee;
- Robust finance and accounting systems and processes which support the regular flow of information to Gas Networks Ireland management, Ervia Senior Management and the Gas Networks Ireland Board;
- Code of Conduct requiring all employees to maintain the highest ethical standards;
- Comprehensive anti-fraud programme including anti-fraud policy, training and communication and a fraud response plan;
- Anti-Bribery and Anti-Corruption policy enacted with associated training and communications for all staff;
- Corporate Governance Framework, including financial control and risk assessment. This is monitored by Ervia and Gas Networks Ireland management and by the Ervia Internal Audit and Risk functions;
- Ervia Internal Audit and Risk Management functions both conduct systematic reviews of internal financial and operational controls. In these reviews, emphasis is focused on areas of greater risk as identified by risk assessment;
- An Integrated Assurance Forum framework which further consolidates and co-ordinates in a structured manner all assurance activities in the organisation across the "Three Lines of Defence". This ensures that Gas Networks Ireland maximises risk and governance oversight on control to build organisational resilience and follows leading practice to meet all compliance obligations and governance requirements; and
- internal control framework assessment that involves undertaking an extensive risk assessment, reviewing the operation and effectiveness of key control policies and processes, internal control self-assessment reporting, monthly performance reporting, supported by assurance activities of Risk, Internal and External Audit.

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

Directors' Report (continued)

Ongoing Monitoring and Review

The Directors confirm that 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 of Gas Networks Ireland, where relevant, in a timely way.

The monitoring and review of the effectiveness of the system of internal control in respect of Gas Networks Ireland is informed by the work of executive managers within the Company who have responsibility for the development and maintenance of the internal control framework. This is supplemented by the ARC who oversee the work of the Ervia Risk function, the work of Ervia Internal Audit and comments made by the external auditor in their management letter and/or other reports.

Ongoing monitoring by the Ervia and Gas Networks Ireland management includes:

- review and consideration of the programme of Internal Audit and consideration of its reports and findings in respect of Gas Networks Ireland. The programme of internal audit for Gas Networks Ireland is also reviewed by the ARC;
- review of regular reporting from Internal Audit on the status of the internal control environment in Gas Networks Ireland and the status of issues raised previously from their own reports. These reports are also reviewed by the ARC;
- participation in the Integrated Assurance Forum;
- preparation of reports by the Managing Director of Gas Networks Ireland on the effectiveness of the operation of the system of internal control, both financial and operational; and
- monthly meetings with the Ervia Executive to discuss financial, risk, internal audit and operational matters pertaining to Gas Networks Ireland.

Ongoing monitoring by the ARC includes;

- review of the Integrated Assurance Forum reports over the system of internal control in Gas Networks Ireland. This is performed on a quarterly basis as part of the review of the Ervia Group results of the Integrated Assurance Forum;
- review of reports from the external auditors, which contain details of any material internal financial control issues; and
- review and consideration of the reports from the Managing Director of Gas Networks Ireland on the effectiveness of the operation of the systems of internal control, both financial and operational.

Directors' Report (continued)

Ongoing monitoring by the Gas Networks Ireland Board includes;

- review and consideration of the reports from the Managing Director of Gas Networks Ireland on the effectiveness of the operation of the systems of internal control, both financial and operational; and
- review of reports from the external auditor, which contain details of any material financial control issues.

Gas Networks Ireland has a robust framework to review the adequacy and monitor the effectiveness of internal controls covering financial, operational compliance and risk management. The Directors are satisfied that the system of internal control in place is appropriate for the business.

Procurement

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

General Data Protection Regulation (GDPR)

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

Review of Effectiveness

The Directors confirm that Gas Networks Ireland has procedures to monitor the effectiveness of its risk management and control procedures. Gas Networks Ireland's monitoring and review of the effectiveness of the system of internal control is informed by the senior management within Gas Networks Ireland and Ervia, the work of the internal and external auditors and the ARC which oversees their work on behalf of the Ervia Board.

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

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

Directors' Report (continued)

External Auditor Review

The external auditor, Deloitte Ireland LLP, has obtained an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate to the circumstances.

The Chairman of Gas Networks Ireland has received confirmation from management and is satisfied that:

- All commercially significant developments affecting Gas Networks Ireland for the financial year ended 31 December 2018 and major issues likely to arise in the short to medium term have been reported to Ervia for inclusion in the 2018 Ervia Annual Report, where considered appropriate by Ervia, and to Gas Networks Ireland for inclusion in the 2018 Gas Networks Ireland financial statements where considered appropriate by Gas Networks Ireland;
- There were no off-balance sheet financial transactions that require disclosure in the 2018 Ervia Annual Report or the Gas Networks Ireland financial statements;
- All appropriate procedures for financial reporting, internal audit, travel, procurement and asset disposals are being carried out;
- Codes of Business Conduct for Directors and employees have been put in place and are being adhered to;
- Government policy on the pay of CEOs and all State body employees as it relates to Gas Networks Ireland is being complied with;
- Government guidelines on the payment of Directors' fees are being complied with;
- The appropriate requirements of the Department of Public Expenditure and Reform Public Spending Code are being complied with;
- Procedures are in place for the making of protected disclosures in accordance with section 21(1) of the Protected Disclosures Act 2014 and the annual report required under section 22(1) of the Act has been published. There were two protected disclosures reported in the year ending 31st December 2018. The matters reported are being investigated in accordance with Ervia's Protected Disclosures policy;
- Government travel policy requirements are being complied with in all respects;
- Gas Networks Ireland has complied with its obligations under tax law; and
- The Code of Practice for the Governance of State Bodies has been adopted and is being complied with, including the requirements of the Ethics in Public Office, Act 1995 and Standards in Public Office Act, 2001.

Directors' Report (continued)

Statement on Relevant Audit Information

In accordance with Section 330 of the Companies Act 2014, the Directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Group's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Company's statutory auditor are unaware.

Directors Compliance Statement

The Directors of the Company acknowledge that they are responsible for securing the Company's compliance with its relevant obligations in accordance with Section 225 of the Companies Act 2014.

The Directors are of the opinion that the policies and the structures and arrangements which the Company has in place are appropriate to secure material compliance by the Company with its relevant obligations. The Company's "relevant obligations" are identified in the Compliance Policy Statement and the associated Compliance Matrix which identifies the key actions and checks that must be in place. The Compliance Policy Statement has been communicated to all senior management of the Company to ensure consistent and robust adherence to the Compliance Policy. The Directors carried out a mid-financial year and financial year-end review of the arrangements and structures in place for 2018 to secure the Company's material compliance with its relevant obligations. The Compliance Policy Statement will be enhanced to meet the Company's compliance obligations as they and/or the Company's business evolve and develop.

Compliance is a dynamic process, involving multiple policies and procedures, the commitment of Directors and senior management and the support of all employees, contractors and agents to make the policy effective. The Directors are committed to fostering an environment at Board level and throughout the Company which raises awareness and respects and promotes the aims of this Compliance Policy.

Companies Act 2014

Gas Networks Ireland is exempt from the obligation to use the 'Designated Activity Company' describing the company type in its name pursuant to Section 151 of the Companies Act 2014.

Independent Auditor

The Company meets the definition of Public Interest Entity ('PIE') as it has securities listed on a regulated market. Accordingly the Company is cognisant of the requirements of Audit Partner and Audit firm rotation, the transition arrangements for rotation and the restriction on the entitlement of the statutory auditor to perform certain non-audit services.

Following receipt of Ministerial consent, Deloitte Ireland LLP were originally appointed as auditors to the Ervia Group including Gas Networks Ireland in August 2014 with the option to extend for a further two years which was exercised in February 2017.

Directors' Report (continued)

Ervia carried out a tender process with the approval and oversight of the Ervia Audit and Risk Committee during 2018 in order to select the next external auditor for the Ervia Group, including Gas Networks Ireland. Following completion of the tender process, Ministerial consent was received on 25 March 2019 to appoint Deloitte as external auditor to the Ervia Group including Gas Networks Ireland for the years 2019, 2020 and 2021.

Political Donations

There were no political donations made during the financial year (2017: nil).

Post Balance Sheet Events

There are no significant events affecting the Group which have taken place since the end of the financial year.

For and on behalf of Gas Networks Ireland:

		March 25th 2019
Mike Quinn	Denis O'Sullivan	Date of Approval

Financial Statements

Independent auditor's report to the members of Gas Networks Ireland

Report on the audit of the financial statements

Opinion on the financial statements of Gas Networks Ireland (the 'company')

In our opinion the Group and the Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and the Company as at 31 December 2018 and of the profit of the Group 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 Companies Act 2014.

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.

The Company financial statements:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Statement of Cash Flows; and
- the related notes 1 to 18.

The relevant financial reporting framework that has been applied in the preparation of the Group and the Company financial statements is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework") and interpretations issued by International Financial Reporting Interpretations Committee (IFRIC).

Independent auditor's report to the members of Gas Networks Ireland (continued)

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 the 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 (IAASA), as applied to public interest entities, 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Accuracy of revenue recognition; and • Accuracy of capitalisation of property, plant and equipment and intangible assets.
Materiality	The materiality that was determined in the current year for the Group was €8,500,000 and €8,000,000 for the Company which was determined on the basis of net assets.
Scoping	Our assessment of audit risk, our evaluation of materiality and our allocation of that materiality determined our audit scope. The factors that we considered when assessing the scope of the Group audit and the level of work to be performed for each company included the following: the financial significance and specific risks of the company; and the effectiveness of the control environment and monitoring activities, including Group-wide controls.
Significant changes in our approach	There were no changes in our approach in the current year.

Independent auditor's report to the members of Gas Networks Ireland (continued)

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 directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accuracy of Revenue recognition	
Key audit matter description	The Group's revenues are principally derived from gas transportation services €487.183m (2017:€473.175m), in both regulated and unregulated markets. Details are set out in note 3 to the financial statements. The regulated revenue is derived from a price control process imposed by the relevant regulator, primarily being the Commission for Regulation Utilities ("CRU"), whereby they carry out a review of the revenues that the Group are allowed to recover through gas tariffs for the ongoing operation and maintenance of the gas network. While revenue accounting includes unbilled revenue, given the price control process combined with the application of IFRS, revenue recognition involves limited judgement. However we determined this to be a key audit matter due to the risk that regulated revenue is not accurately recorded and not recognised in line with IFRS 15 Revenue and Group policies as outlined in note 3. Additionally the Group has unregulated revenues some of which involves accounting for deferred revenue. There is a risk that deferred revenues are not accurately recorded at year end. The Group has considered the adoption of IFRS 15 in the current year and no adjustment was recognised in the financial statements in respect of the adoption of IFRS 15 from 1 January 2018.

Independent auditor's report to the members of Gas Networks Ireland (continued)

Accuracy of Revenue recognition	
How the scope of our audit responded to the key audit matter	We obtained an understanding of the regulated and unregulated revenue arrangements in place across the Group. We evaluated the design, determined the implementation and tested the operational effectiveness of key internal controls over the Group's significant revenue streams. Relevant details on a revenue stream basis are set-out below: For the system generated revenue recognised in respect of gas transportation and distribution services, we obtained an understanding of the internal controls and billing systems (including interfaces with the general ledger) in place over those revenue streams. We also tested the operational effectiveness of key IT controls. For regulated revenue, we tested the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers. We have also tested the volume of gas being charged for and ensured those charges were in line with the regulatory price tariffs. For unbilled revenue at year end, we agreed the amounts to transportation/ distribution records, post year end invoices and receipts for payments. We also reviewed the calculations of deferred revenues associated with unregulated revenues. We challenged the analysis completed by management considering the impact of IFRS 15 and agreed this to relevant supporting documentation. We evaluated the completeness and accuracy of the disclosures included in the consolidated financial statements with reference to IFRS 15.
Key observations	We have no observations that impact on our audit in respect of the amounts and disclosures related to revenue.

Independent auditor's report to the members of Gas Networks Ireland (continued)

Accuracy of capitalisation of property, plant and equipment and intangible assets	
Key audit matter description	A key focus for the Group is network investment. Property, plant and equipment and intangible assets €2,596.330m (2017:€2,596.771m) represent the majority of the Group's asset base and a significant proportion of the Group's annual expenditure. The total capitalised spend in 2018 amounted to €142.942m (2017:€147.160m.) Depending upon its nature, expenditure may be capitalised or expensed in the year the cost is incurred. In making this decision the Directors have to consider whether the expenditure will generate future economic benefits which necessarily involves judgement, for example in determining whether activities or items are adding value or maintaining existing assets and the useful lives of capitalised expenditure.
How the scope of our audit responded to the key audit matter	We assessed whether the Group's accounting policies in relation to the capitalisation of expenditure complied with IFRS, and tested the implementation of those policies. We evaluated the design, determined the implementation and tested the operational effectiveness of key internal controls over the Group's capitalisation process. We also tested relevant IT controls including interfaces between primary and subsidiary ledgers in order to assess that all items capitalised are transferred to the fixed asset register on a timely basis. As part of our substantive testing, we inspected contracts and underlying invoices, to ensure that the costs were accurately recorded and the classification between capital and operating expenditure was appropriate. We also assessed the appropriateness of the rates of depreciation and amortisation applied to the assets.
Key observations	We have no observations that impact on our audit in respect of the amounts and disclosures related to the capitalisation of property, plant and equipment and intangible assets.

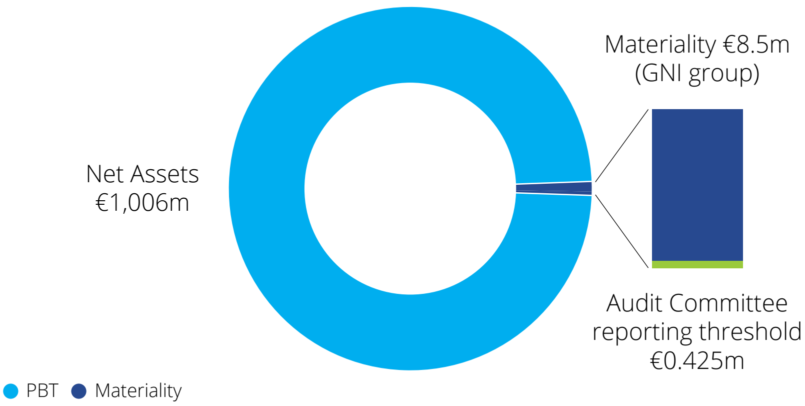
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent auditor's report to the members of Gas Networks Ireland (continued)

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be €8,500,000 which is approximately 1% of the net asset value and materiality for the Company of €8,000,000 also based on net assets. We have considered net asset value to be the critical component for determining materiality because Gas Networks Ireland is an infrastructure company and users of the financial statements would consider net asset value as a key metric in assessing performance. We have considered quantitative and qualitative factors when reaching this conclusion which include; the fact there is no history of unadjusted prior year errors and there is a strong control environment in place. In addition to Group (company number 555744) and Company materiality, a specific materiality was determined for GNI (UK) Limited and Gas Networks Ireland (IOM) DAC. The range of materiality determined ranged from €8,500,000 to €2,000,000.



We agreed with the Ervia Audit and Risk Committee, that we would report to them any audit differences in excess of €425,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Ervia Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report to the members of Gas Networks Ireland (continued)

An overview of the scope of our audit

We determined the scope of our audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. We focused our Group audit scope on the audit of the three trading legal entities comprising the Group. These entities represent the principal business units and account for 100% of the revenue and 100% of the Group's total assets. Our audit work for each entity was executed at levels of materiality applicable to each individual entity. At the Group entity level we also tested the consolidation process.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, 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 directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors 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 directors are responsible for assessing the Group and 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 directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Gas Networks Ireland (continued)

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 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 directors' 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 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.

Independent auditor's report to the members of Gas Networks Ireland (continued)

- 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.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the 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 the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report to the members of Gas Networks Ireland (continued)

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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 the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The Company balance sheet is in agreement with the accounting records.
- In our opinion the information given in those parts of the directors' report as specified for our review is consistent with the financial statements and has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement included within the Director's Report that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsection 2(c) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014. Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the directors' report that have been specified for our review.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Independent auditor's report to the members of Gas Networks Ireland (continued)

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 (as amended) for the financial year ended 31 December 2018. We have nothing to report in this regard.

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 Directors Report does not reflect the Group's compliance with paragraph 1.9(iv) of the Code of Practice or if it is 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.

Other matters which we are required to address

Following the recommendation of the Ervia Audit and Risk Committee, Deloitte were appointed by Gas Networks Ireland on 26 January 2015 to audit the financial statements for the financial year end 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2015 to 31 December 2018.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Ervia Audit and Risk Committee we are required to provide in accordance with ISA (Ireland) 260.

Kevin Butler
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm 6 Lapps Quay
Cork

Group Income Statement
for the year ended 31 December 2018

	Notes	Before exceptional items 2018 €'000	Exceptional items (incl certain remeasurements) Note 7 2018 €'000	After exceptional items 2018 €'000	Before exceptional items 2017 €'000	Exceptional items (incl certain remeasurements) Note 7 2017 €'000	After exceptional items 2017 €'000
Continuing operations							
Revenue	3	**487,183**	**-**	**487,183**	473,175	-	473,175
Operating costs (excluding depreciation and amortisation)	4	**(186,311)**	**-**	**(186,311)**	(168,118)	-	(168,118)
Operating profit before depreciation and amortisation (EBITDA)		**300,872**	**-**	**300,872**	305,057	-	305,057
Depreciation and amortisation	6	**(136,506)**	**-**	**(136,506)**	(138,876)	-	(138,876)
Operating profit		**164,366**	**-**	**164,366**	166,181	-	166,181
Finance income	7	**-**	**1,497**	**1,497**	-	2,862	2,862
Finance costs	7	**(21,317)**	**(79)**	**(21,396)**	(22,602)	-	(22,602)
Net finance (costs)/income	7	**(21,317)**	**1,418**	**(19,899)**	(22,602)	2,862	(19,740)
Profit before income tax		**143,049**	**1,418**	**144,467**	143,579	2,862	146,441
Income tax expense	8	**(21,481)**	**(177)**	**(21,658)**	(20,748)	(358)	(21,106)
Profit for the year		**121,568**	**1,241**	**122,809**	122,831	2,504	125,335

See note 1 (a) for definitions of exceptional items (including certain remeasurements).

Group Statement of Other Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 €'000	2017 €'000
Profit for the year		**122,809**	125,335
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on consolidation of foreign subsidiaries		**(418)**	(1,070)
Net change in fair value of cash flow hedges		**917**	(1,909)
Deferred tax on cash flow hedge movement	8	**(115)**	239
Total items that may be reclassified subsequently to profit or loss		**384**	(2,740)
Total other comprehensive income/(expense) for the year, net of income tax		**384**	(2,740)
Total comprehensive income for the year		**123,193**	122,595
Total comprehensive income attributable to:			
Owners of the Company		**123,193**	122,595
Total comprehensive income for the year		**123,193**	122,595

Group Balance Sheet
as at 31 December 2018

	Notes	31-Dec-18 €'000	31-Dec-17 €'000
Assets			
Non-current assets			
Property, plant and equipment	9	**2,574,718**	2,577,937
Intangible assets	10	**21,612**	18,834
Derivative financial instruments	23	**13,242**	16,058
Total non-current assets		**2,609,572**	2,612,829
Current assets			
Trade and other receivables	12	**65,784**	101,379
Cash and cash equivalents	13	**116,590**	51,448
Restricted deposits	14	**26,700**	32,594
Derivative financial instruments	23	**12,172**	39
Inventories	11	**1,675**	1,059
Total current assets		**222,921**	186,519
Total assets		**2,832,493**	2,799,348
Equity and liabilities			
Equity			
Share capital and share premium		**(318,353)**	(318,353)
Capital contribution		**(363,083)**	(363,083)
Retained earnings		**(325,400)**	(256,780)
Cash flow hedge reserve		**1,381**	2,183
Translation reserve		**(673)**	(1,091)
Total equity attributable to equity holders of the Company		**(1,006,128)**	(937,124)
Liabilities			
Non-current liabilities			
Borrowings and other debt	16	**(745,127)**	(1,084,213)
Deferred revenue	19	**(9,716)**	(12,801)
Government grants	20	**(81,554)**	(72,073)
Provisions	21	**(7,201)**	(7,116)
Trade and other payables	22	**(42,508)**	(37,805)
Derivative financial instruments	23	**(3,957)**	(5,292)
Deferred tax liabilities	8	**(209,470)**	(212,470)
Total non-current liabilities		**(1,099,533)**	(1,431,770)
Current liabilities			
Borrowings and other debt	16	**(446,699)**	(101,288)
Deferred revenue	19	**(8,391)**	(7,951)
Government grants	20	**(6,458)**	(5,632)
Provisions	21	**(5,758)**	(5,676)
Derivative financial instruments	23	**(20)**	(294)
Trade and other payables	22	**(257,108)**	(305,335)
Current tax liabilities	8	**(2,398)**	(4,278)
Total current liabilities		**(726,832)**	(430,454)
Total liabilities		**(1,826,365)**	(1,862,224)
Total equity and liabilities		**(2,832,493)**	(2,799,348)

For and on behalf of the Board:

Mike Quinn
Chairman

Denis O'Sullivan
Director

March 25th 2019
Date of Approval

Group Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital and share premium	Capital contribution	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2017	(318,353)	(363,083)	513	(2,161)	(179,885)	(862,969)
Profit for the year	-	-	-	-	(125,335)	(125,335)
Other comprehensive expense for the year, net of income tax	-	-	1,670	1,070	-	2,740
Total comprehensive expense/(income) for the year	-	-	1,670	1,070	(125,335)	(122,595)
Dividends (note 27)	-	-	-	-	48,440	48,440
Balance at 31 December 2017	(318,353)	(363,083)	2,183	(1,091)	(256,780)	(937,124)
Profit for the year	**-**	**-**	**-**	**-**	**(122,809)**	**(122,809)**
Other comprehensive (income)/expense for the year, net of income tax	**-**	**-**	**(802)**	**418**	**-**	**(384)**
Total comprehensive (income)/expense for the year	**-**	**-**	**(802)**	**418**	**(122,809)**	**(123,193)**
Dividends (note 27)	**-**	**-**	**-**	**-**	**54,189**	**54,189**
Balance at 31 December 2018	**(318,353)**	**(363,083)**	**1,381**	**(673)**	**(325,400)**	**(1,006,128)**

All attributable to equity holders of the Company.

Group Statement of Cash Flows
for the year ended 31 December 2018

	Notes	2018 €'000	2017 €'000
Net cash from operating activities	15	**306,415**	212,008
Cash flows from investing activities			
Payments for property, plant and equipment		**(121,370)**	(141,147)
Payments for intangible assets		**(5,494)**	(2,378)
Grants received		**9,256**	13,274
Net cash used in investing activities		**(117,608)**	(130,251)
Cash flows from financing activities			
Proceeds from borrowings		**99,662**	99,350
Repayment of borrowings		**(102,249)**	(42,249)
Repayment of loan to ultimate parent undertaking		**(72,000)**	(95,921)
Credit support arrangements		**-**	(3,630)
Dividends paid	27	**(49,089)**	(48,440)
Net cash used in financing activities		**(123,676)**	(90,890)
Net increase/(decrease) in cash and cash equivalents	13	**65,131**	(9,133)
Cash and cash equivalents at the beginning of the year	13	**51,448**	60,708
Effect of exchange rate fluctuations on cash held	13	**11**	(127)
Cash and cash equivalents at 31 December	13	**116,590**	51,448

Notes to the Group financial statements

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies

(a) Basis of Preparation

Gas Networks Ireland ('the Company') is a designated activity company, limited by shares, and incorporated in Ireland, on 13 January 2015. The address of its registered office is Gasworks Road, Cork, Ireland.

The Group financial statements consolidate the financial statements of the Company and its subsidiaries, (together referred to as 'the Group'), up to 31 December each year. The Company and its subsidiaries are ultimately controlled by Ervia.

The Group and Company 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 ended 31 December 2018.

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

The Directors have a reasonable expectation that the Group and the Company will continue to meet its liabilities as they fall due for the foreseeable future and consequently the financial statements are prepared on a going concern basis. The Group has €457 million in undrawn facilities, together with strong profitability forecasts for 2019, available to meet any liabilities as they fall due.

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

Certain comparative balances have been restated in the financial statements to align with current year presentation, specifically note 4 Operating costs where sub-contractor costs are now presented within the expense caption "materials, maintenance and sub-contractor costs" compared to previous presentation within expense caption "hired and contracted services" and note 25 Operating leases primarily arising from a reassessment of the remaining lease terms. In addition, comparative balances in note 3 Revenue have been restated in accordance with the IFRS 15 requirements to provide additional revenue disaggregation disclosures.

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

(b) New Accounting Standards and Interpretations

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

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

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

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the balance sheet and the Group has continued to use the more common terminology to describe such balances (refer to Group note 19 and Company note 10 for details on deferred revenue).

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

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

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

(ii) Impact of adoption of IFRS 9 Financial Instruments

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

IFRS 9 introduced new requirements for:

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

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

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

(a) Classification and measurement of financial assets

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

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

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

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The Group having regard to the nature and credit risk of its financial assets, has not identified any transition adjustment in respect of the loss allowance as set out in Group note 12 (Company note 4), arising from the adoption of IFRS 9.

(c) Classification and measurement of financial liabilities

IFRS 9 introduces a change in the classification and measurement of financial liabilities relating to the accounting for changes in the fair value of a liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(d) General hedge accounting

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

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

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

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

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

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

Standard/Amendment	EU Effective Date	Endorsed by the EU
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	March 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	March 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	February 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018	February 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	November 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	October 2017

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(iv) Standards in issue but not yet effective

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

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

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

[1] IASB date provided if not yet endorsed by the EU.

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

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019. This new standard has replaced IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change is to lessee accounting, where the distinction between operating and finance leases is removed, and effectively brings onto the balance sheet the accounting for assets and liabilities associated with operating leases. A depreciation charge and lease interest charge will be recognised in the income statement, replacing the rent operating cost which was recognised previously. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard. There will be no cumulative adjustment to retained earnings at the date of transition. The impact of adoption of the new standard will not have a material impact on the Group's reported profits, however minor classification impacts will arise between reported operating costs, depreciation and finance costs, that will be broadly neutral in aggregate. Additional balance sheet assets and liabilities will be recognised in respect of the Group's operating lease arrangements, being the present value of the future operating lease commitments of €4.5 million as at 31 December 2018, as set out in note 25, will be presented on the balance sheet as a lease liability, with a corresponding right of use asset (adjusted for prepaid rent/accrued rent at the date of transition). The Group will adopt the practical expedient offered by IFRS 16, whereby an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application, and instead, is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 and not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

(c) Significant Accounting Policies

(i) Basis of Consolidation

i. 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), except where the transaction is accounted for as a transfer of assets and liabilities from an entity under common control.

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.

ii. 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 Company financial statements, investments in subsidiaries are carried at cost less any impairment charges.

iii. 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.

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(ii) Foreign Currency

These financial statements are presented in euro, which is both the functional currency of the Company 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).

(iii) 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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

iii. Subsequent expenditure

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

iv. Borrowing costs

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

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

(iv) Intangible Assets

i. 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.

ii. 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.

iii. 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 goodwill or 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.

iv. Borrowing costs

Refer to accounting policy (iii) above.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(v) Impairment of Assets

i. Assets that are not subject to amortisation

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

ii. Assets that are subject to depreciation/amortisation

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

iii. Recognition of an impairment loss

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

iv. Reversal of an impairment loss

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

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

(vi) Leases

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

(vii) 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.

(viii) Financial Assets and Liabilities

i. Derivative financial instruments

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

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(a) Cash flow hedges

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

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

(b) Fair value hedges

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

ii. Interest bearing borrowings

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

iii. Non-derivative financial assets and liabilities

Trade and other receivables

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

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

Cash and cash equivalents

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

(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) Grants

A government grant is recognised as a liability initially on the balance sheet when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same period 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.

(xi) Revenue

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

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.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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

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

(xii) Operating Profit

Operating profit is stated before net finance costs and taxation.

(xiii) Net Finance Costs

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

Finance costs comprise interest payable on borrowings, financing charge on provisions, and fair value movements on financial assets classified as fair value through profit or loss. 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.

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).

(xiv) 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 period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

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.

(xv) Retirement Benefit Obligations

i. Defined benefit pension scheme accounted for as Group Plan

The Ervia Group operates a defined benefit pension scheme. A number of the Gas Networks Ireland's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19 (revised) and therefore the total net pension liability (or asset) associated with the scheme is recognised in the financial statements of Ervia Group and not in the financial statements of Gas Networks Ireland – refer to the Ervia Group Annual Report for full disclosure in respect of the scheme.

ii. Defined contribution pension schemes

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.

(xvi) Non-GAAP Measures

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

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(d) Critical Accounting Judgements and Estimates

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

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

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

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

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

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

(ii) Estimation uncertainty

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

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

As of 31 December 2018, the aggregate of the Group's property, plant and equipment (PP&E) and intangible assets was €2,596.3 million, which accounted for the majority of the Group's assets. Therefore the estimates and assumptions made in determining the carrying value are critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect the Group's future financial performance and position.

Depreciation and useful lives

The Group recognises depreciation and amortisation charges annually (2018: €136.5 million) which is primarily calculated to write down the cost of PP&E and intangible assets over their expected useful economic lives. The determination of estimated useful lives of assets are based on experience, expectations about the future and other factors. The estimated useful lives for major asset classifications are set out in these accounting policies (section c). The Group reviews the useful lives of assets annually and any required changes are adjusted prospectively. Due to the significance of asset investment by the Group, variations between actual and estimated useful economic lives could have a material impact on future results, either positively or negatively. Historically, no changes in useful lives have been identified by the Group that have had a material impact on operating results.

Notes to the Group financial statements (continued)

1. Statement of Accounting Policies (continued)

(b) 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 21 for further detail.

(c) 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 8.

Notes to the Group financial statements (continued)

2. Segmental Information

The Group has adopted IFRS 8 Operating Segments in the financial statements. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance. In the Group's case the Chief Operating Decision Maker has been identified as the Gas Networks Ireland Board.

The Group's operating segments are therefore those used internally by the Gas Networks Ireland Board to run the business and make strategic decisions. The Gas Networks Ireland Board is provided with information in respect of the Group on a single segment basis for the purposes of assessing performance and allocating resources. The Gas Networks Ireland Board reviews operating results at a Gas Networks Ireland Group level. In light of this, the Group has a single segment for financial reporting purposes and therefore no further detailed segmental information on operating results is provided in this note.

	2018 €'000	2017 €'000
(a) Revenue		
External revenue split by geographic location is as follows:		
Ireland	**450,693**	434,253
UK (including Northern Ireland and Isle of Man)	**36,490**	38,922
Total	**487,183**	473,175

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

	2018 €'000	2017 €'000
(b) Non-current assets by geographic location		
Ireland	**2,169,450**	2,186,460
UK (including Northern Ireland and Isle of Man)	**426,880**	410,311
Total	**2,596,330**	2,596,771

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

Notes to the Group financial statements (continued)

3. Revenue

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

Notes to the Group financial statements (continued)

4. Operating Costs (excluding depreciation and amortisation)

	2018 €'000	2017 €'000
Employee benefit expense	**(42,148)**	(41,252)
Hired and contracted services	**(8,763)**	(5,879)
Materials, maintenance and sub-contractor costs	**(44,938)**	(39,987)
Rent, rates and facilities	**(29,483)**	(27,131)
Central transactional and support service costs	**(22,726)**	(21,476)
Other operating expenses	**(38,253)**	(32,393)
Total	**(186,311)**	(168,118)

Operating costs are stated after charging:

	2018 €'000	2017 €'000
(a) Auditor's remuneration – Group & Company		
– statutory audit services	**(134)**	(134)
– other audit related assurance services	**(26)**	(26)
– other non-audit services	**-**	-
– tax advisory services	**-**	-
Total	**(160)**	(160)
(b) Directors' remuneration		
Directors' fees	**-**	-
Directors – emoluments*	**(420)**	(418)
Directors – pension contributions*	**(60)**	(61)
Directors – termination benefits	**-**	-
Total	**(480)**	(479)

*In accordance with the Articles of Association of the Group, the Directors are not entitled to receive fees. Remuneration of the Directors as disclosed above represents an apportionment of total remuneration earned in their capacity as salaried employees of Ervia, based on services provided to the Group.

	2018 €'000	2017 €'000
(b) (i) Current Managing Director salary and benefits		
Managing Director's basic salary	**(140)**	-
Other short-term employee benefits	**(35)**	-
Post-employment benefits – pension contributions	**(21)**	-
Total	**(196)**	-
(b) (ii) Former Managing Director salary and benefits		
Managing Director's basic salary	**(48)**	(197)
Other short-term employee benefits	**(15)**	(54)
Post-employment benefits – pension contributions	**(8)**	(34)
Total	**(71)**	(285)

Notes to the Group financial statements (continued)

5. Employee Benefits

	2018 €'000	2017 €'000
(a) Aggregate employee benefits		
Staff short-term benefits	**(41,178)**	(40,807)
Post-employment benefits - pension contributions	**(5,525)**	(5,567)
Employer's contribution to social welfare	**(4,465)**	(4,427)
	(51,168)	(50,801)
Capitalised payroll	**9,020**	9,549
Employee benefit expense charged to profit or loss	**(42,148)**	(41,252)

(b) Staff short-term benefits	2018 €'000	2017 €'000
Wages and salaries	**(38,394)**	(38,167)
Overtime	**(1,132)**	(1,138)
Allowances	**(698)**	(715)
Other	**(954)**	(787)
Total	**(41,178)**	(40,807)

The average number of employees employed by the Group and the Company for the year was 554 (2017: 560).

Refer to note 21 for details of termination benefits charged against the restructuring provision.

6. Depreciation and Amortisation

		2018 €'000	2017 €'000
Depreciation	9	**(136,792)**	(131,903)
Amortisation of intangible assets	10	**(5,424)**	(12,632)
Grant amortisation	20	**5,710**	5,659
Total		**(136,506)**	(138,876)

Notes to the Group financial statements (continued)

7. Net Finance Costs

		2018 €'000	2017 €'000
Before exceptional items			
Finance costs			
Interest		**(19,318)**	(20,381)
Interest capitalised		**1,122**	749
Financing charge	21	**(67)**	(93)
Other finance costs		**(3,054)**	(2,877)
Total finance costs		**(21,317)**	(22,602)
Exceptional items			
Net changes in fair value of financing undesignated derivatives	(i)	**1,497**	2,628
Net changes in fair value of financial instruments designated in a fair value hedging relationship	(i)	**(79)**	234
Total exceptional items		**1,418**	2,862
Total			
Finance income		**1,497**	2,862
Finance costs		**(21,396)**	(22,602)
Net finance costs		**(19,899)**	(19,740)

(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 instruments falling within the scope of IFRS 9 are set out in accounting policy viii.

Notes to the Group financial statements (continued)

8. Tax

Income tax expense	2018 €'000	2017 €'000
Current tax expense		
Current tax	**(24,358)**	(22,447)
Adjustments in respect of previous years	**(321)**	228
	(24,679)	(22,219)
Deferred tax credit		
Origination and reversal of temporary differences	**3,053**	1,186
Adjustments in respect of previous years	**(32)**	(73)
	3,021	1,113
Total income tax expense	**(21,658)**	(21,106)

Reconciliation of effective tax rate	2018 €'000	2017 €'000
Profit before income tax	**144,467**	146,441
Taxed at 12.5% (2017: 12.5%)	**(18,058)**	(18,305)
Expenses not deductible for tax purposes	**(1,841)**	(1,711)
Income not taxable	**490**	490
Profits taxed at higher rates	**(1,553)**	(1,887)
Effect of tax rate change	**(376)**	133
Exchange adjustments	**33**	19
Adjustments to tax charge in respect of previous years	**(353)**	155
	(21,658)	(21,106)

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

Current tax assets and liabilities	31-Dec-18 €'000	31-Dec-17 €'000
Current tax liabilities	**(2,398)**	(4,278)

Notes to the Group financial statements (continued)

8. Tax (continued)

Deferred tax assets and liabilities

	Derivative financial instruments	Property, plant and equipment and intangible assets	Interest	Other	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2017	73	(221,514)	7,190	110	(214,141)
Recognised in income statement	-	1,651	(428)	(110)	1,113
Recognised in equity	239	-	-	-	239
Exchange adjustments	-	608	(289)	-	319
At 31 December 2017	312	(219,255)	6,473	-	(212,470)
Recognised in income statement	**-**	**1,790**	**1,231**	**-**	**3,021**
Recognised in equity	**(115)**	**-**	**-**	**-**	**(115)**
Exchange adjustments	**-**	**172**	**(78)**	**-**	**94**
At 31 December 2018	**197**	**(217,293)**	**7,626**	**-**	**(209,470)**

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment

	Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2017	67,525	4,014,371	63,175	4,145,071
Additions	-	8,701	134,981	143,682
Disposals	-	(4,951)	-	(4,951)
Transfers in year	442	86,328	(86,770)	-
Effect of movement in exchange rates	-	(8,960)	(50)	(9,010)
At 31 December 2017	67,967	4,095,489	111,336	4,274,792
Additions	**-**	**10,146**	**124,585**	**134,731**
Disposals	**-**	**(6,148)**	**-**	**(6,148)**
Transfers in year	**28**	**203,893**	**(203,921)**	**-**
Effect of movement in exchange rates	**-**	**(2,174)**	**(241)**	**(2,415)**
At 31 December 2018	**67,995**	**4,301,206**	**31,759**	**4,400,960**
Accumulated depreciation and impairment losses				
At 1 January 2017	(21,172)	(1,552,696)	-	(1,573,868)
Depreciation for the year	(1,488)	(130,415)	-	(131,903)
Disposals	-	4,918	-	4,918
Effect of movement in exchange rates	-	3,998	-	3,998
At 31 December 2017	(22,660)	(1,674,195)	-	(1,696,855)
Depreciation for the year	**(1,498)**	**(135,294)**	**-**	**(136,792)**
Disposals	**-**	**6,148**	**-**	**6,148**
Effect of movement in exchange rates	**-**	**1,257**	**-**	**1,257**
At 31 December 2018	**(24,158)**	**(1,802,084)**	**-**	**(1,826,242)**
Carrying amounts				
At 31 December 2017	45,307	2,421,294	111,336	2,577,937
At 31 December 2018	**43,837**	**2,499,122**	**31,759**	**2,574,718**

During the year, the Group capitalised €1.1 million (2017: €0.7 million) in interest. The capitalisation rate was 2.0% (2017: 2.2%). The Group also capitalised €8.7 million in payroll costs during the year (2017: €9.4 million).

Notes to the Group financial statements (continued)

9. Property, Plant and Equipment (continued)

Gas Networks Ireland (IOM) DAC, a subsidiary of the Group, entered into a project financing arrangement in 2003. The balance outstanding of €5.2 million at 31 December 2018 (2017: €7.8 million) on this limited recourse loan facility is secured over the assets of Gas Networks Ireland (IOM) DAC (note 16).

Capital commitments	2018	2017
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	**36**	35

10. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2017	128,484	8,035	136,519
Additions (incl internally developed)	-	3,478	3,478
Transfers in year	5,450	(5,450)	-
Effect of movement in exchange rates	(25)	(37)	(62)
At 31 December 2017	133,909	6,026	139,935
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	**140,976**	**7,150**	**148,126**
Accumulated amortisation and impairment losses			
At 1 January 2017	(108,491)	-	(108,491)
Amortisation for the year	(12,632)	-	(12,632)
Effect of movement in exchange rates	22	-	22
At 31 December 2017	(121,101)	-	(121,101)
Amortisation for the year	**(5,424)**	**-**	**(5,424)**
Effect of movement in exchange rates	**11**	**-**	**11**
At 31 December 2018	**(126,514)**	**-**	**(126,514)**
Carrying amounts			
At 31 December 2017	12,808	6,026	18,834
At 31 December 2018	**14,462**	**7,150**	**21,612**

The Group capitalised €0.4 million in payroll costs during the year (2017: €0.2 million).

Notes to the Group financial statements (continued)

11. Inventory

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

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

12. Trade and Other Receivables

		31-Dec-18 €'000	31-Dec-17 €'000
Trade receivables		**9,486**	45,332
Trade receivables – unbilled		**40,856**	43,555
Prepayments		**3,761**	3,552
Amounts due from related parties	27	**592**	3,392
Grant receivable		**7,099**	-
Other receivables		**3,990**	5,548
Total		**65,784**	101,379
Analysed as follows:			
Non-current		**-**	-
Current		**65,784**	101,379
Total		**65,784**	101,379

Trade receivables are stated net of allowances for impairment. Trade receivables mainly represent receivables in respect of use of system revenue in the Republic of Ireland and charges for use of the transmission pipelines in Northern Ireland. Refer to note 27 for further detail in respect of balances with related parties.

Credit risk

Use of system revenue in Ireland comprises Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. The credit terms for both DUoS and TUoS are ten business days and there 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. In respect of the Networks business in Northern Ireland, revenue is derived principally from charges for use of the pipelines. Invoices are issued by the administrator and non-payment of invoices attracts a daily interest charge. Payments in relation to new connections or alterations are paid for in advance of the work being carried out. Credit risk on all other receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Notes to the Group financial statements (continued)

12. Trade and Other Receivables (continued)

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade receivables	**9,486**	45,332
Trade receivables – unbilled	**40,856**	43,555
Other receivables	**3,990**	5,548
Total	**54,332**	94,435

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Ireland	**47,013**	86,161
UK (including Northern Ireland and Isle of Man)	**7,319**	8,274
Total	**54,332**	94,435

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

	Net receivable	Net receivable
	31-Dec-18	31-Dec-17
	€'000	€'000
Not past due	**53,603**	92,571
0 – 30 days overdue	**166**	1,263
31 – 120 days overdue	**375**	479
> 120 days overdue	**188**	122
Total	**54,332**	94,435

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

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

Notes to the Group financial statements (continued)

13. Cash and Cash Equivalents

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Cash and cash equivalents	**116,590**	51,448
Total	**116,590**	51,448

	2018	2017
	€'000	€'000
At 1 January	**51,448**	60,708
Increase/(decrease) in cash and cash equivalents in the statement of cash flows	**65,131**	(9,133)
Effect of exchange rate fluctuations on cash held	**11**	(127)
At 31 December	**116,590**	51,448

14. Restricted Deposits

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

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

Notes to the Group financial statements (continued)

15. Cash Generated from Operations

	Notes	2018 €'000	2017 €'000
Cash flows from operating activities			
Profit for the year		**122,809**	125,335
Adjustments for:			
Depreciation and amortisation	6	**136,506**	138,876
Net finance costs	7	**19,899**	19,740
Income tax expense	8	**21,658**	21,106
		300,872	305,057
Working capital changes:			
Change in inventories		**(616)**	1,347
Change in trade and other receivables		**40,234**	(32,545)
Change in trade and other payables		**16,889**	(9,084)
Change in deferred revenue		**(2,645)**	2,069
Change in provisions		**100**	(4,395)
Cash from operating activities		**354,834**	262,449
Interest paid		**(21,883)**	(26,306)
Income tax paid		**(26,536)**	(24,135)
Net cash from operating activities		**306,415**	212,008

Notes to the Group financial statements (continued)

16. Borrowings and Other Debt

This note provides information about the contractual terms of the Group's interest-bearing borrowings. Refer to note 23 for more information about the Group's exposure to interest rate, exchange rate and liquidity risk.

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

	Bonds	Loans from financial institutions[1]	Total	Bonds	Loans from financial institutions[1]	Total
	31-Dec-18	31-Dec-18	31-Dec-18	31-Dec-17	31-Dec-17	31-Dec-17
	€'000	€'000	€'000	€'000	€'000	€'000
Less than one year	**-**	**(446,699)**	**(446,699)**	-	(101,288)	(101,288)
Current	**-**	**(446,699)**	**(446,699)**	-	(101,288)	(101,288)
Between one and five years	**-**	**(124,139)**	**(124,139)**	-	(463,747)	(463,747)
More than five years	**(620,988)**	**-**	**(620,988)**	(620,466)	-	(620,466)
Non-current	**(620,988)**	**(124,139)**	**(745,127)**	(620,466)	(463,747)	(1,084,213)
Total	**(620,988)**	**(570,838)**	**(1,191,826)**	(620,466)	(565,035)	(1,185,501)

1 including private placement notes.

Total borrowings include €453.1 million (2017: €444.5 million) of floating rate debt, €5.2 million (2017: €7.8 million) of inflation linked debt and €733.5 million (2017: €733.2 million) of fixed rate debt which have been drawn down from various lenders. The inflation linked debt is secured over the assets of Gas Networks Ireland (IOM) 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.

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

Certain borrowings are held with related parties, refer to note 27 for full details of related party disclosures.

Notes to the Group financial statements (continued)

17. Analysis of Net Debt

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

		31-Dec-18	31-Dec-17
		€'000	€'000
Total borrowings	16	**(1,191,826)**	(1,185,501)
Less fair value hedges recognised within borrowings	23	**24,167**	15,578
Less cash and cash equivalents	13	**116,590**	51,448
Net debt		**(1,051,069)**	(1,118,475)

Net debt reconciliation		2018	2017
		€'000	€'000
At 1 January		**(1,118,475)**	(1,055,204)
Cash from operations	15	**354,834**	262,449
Interest paid		**(21,883)**	(26,306)
Tax paid		**(26,536)**	(24,135)
Net capital expenditure		**(117,608)**	(130,251)
Dividends paid	27	**(49,089)**	(48,440)
Repayment of loan to ultimate parent undertaking		**(72,000)**	(95,921)
Other cash items		**-**	(3,630)
Non-cash items		**(312)**	2,963
At 31 December		**(1,051,069)**	(1,118,475)

Notes to the Group financial statements (continued)

18. Retirement Benefit Obligations

Defined benefit pension scheme accounted for as a Group Plan

The Ervia Group operates a defined benefit pension scheme. A number of Gas Networks Ireland's employees participate in that scheme. The scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while Gas Networks Ireland recognises only the cost of contributions payable for the year in respect of Gas Networks Ireland's employees.

There is no contractual agreement or stated policy in place for charging the Gas Networks Ireland's net defined benefit cost. The funding contribution rate is calculated every 3 years, by the pension scheme's actuary, for the Ervia Group as a whole. Gas Networks Ireland's contribution amount is determined by applying the Ervia Group contribution rate to the salaries of the participating Gas Networks Ireland employees. Refer to the Ervia Group Annual Report for full disclosure in respect of the scheme.

During 2018, the contributions paid to Ervia in respect of the Gas Networks Ireland's employees was €4.6 million (2017: €4.8 million). These costs are included in the Gas Networks Ireland Group employee benefit expense (set out in note 5) and are identified as a related party transaction in note 27.

Defined contribution scheme

During the year ended 31 December 2018, the Gas Networks Ireland Group contributed €0.9 million in respect of the Ervia Defined Contribution Scheme (2017: €0.8 million), on behalf of its employees, which was charged to the income statement.

19. Deferred Revenue

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

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

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

Notes to the Group financial statements (continued)

20. Government Grants

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

Analysed as follows:	31-Dec-18 €'000	31-Dec-17 €'000
Non-current	**(81,554)**	(72,073)
Current	**(6,458)**	(5,632)
Total	**(88,012)**	(77,705)

In certain circumstances grants may become repayable if the conditions laid down in the grant agreements are not adhered to. Grants receivable for 2018 of €16.6 million (2017: €13.3 million) primarily relate to grant funding from the Innovation and Networks Executive Agency (INEA) for the twinning infrastructure project. A number of conditions relating to this grant funding remain in progress at year end.

Notes to the Group financial statements (continued)

21. Provisions

Provisions

	Restructuring	Environmental	Self-insured claims	Total
	€'000	€'000	€'000	€'000
At 1 January 2018	**(214)**	**(5,884)**	**(6,694)**	**(12,792)**
Financing charge	**(2)**	**(65)**	**-**	**(67)**
Provisions made in the year	**(266)**	**(415)**	**(855)**	**(1,536)**
Provisions used in the year	**164**	**563**	**709**	**1,436**
At 31 December 2018	**(318)**	**(5,801)**	**(6,840)**	**(12,959)**

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

Restructuring

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

Environmental

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

Self-insured claims

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

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 20.

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

Notes to the Group financial statements (continued)

22. Trade and Other Payables

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade payables	**(10,124)**	(5,520)
Accrued expenses	**(81,030)**	(69,634)
Amounts owed to ultimate parent undertaking	**(159,946)**	(225,595)
Other payables	**(32,815)**	(33,592)
Taxation and social insurance creditors1	**(15,701)**	(8,799)
Total	**(299,616)**	(343,140)
Analysed as follows:		
Non-current	**(42,508)**	(37,805)
Current	**(257,108)**	(305,335)
Total	**(299,616)**	(343,140)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(551)**	(672)
VAT	**(15,150)**	(8,127)
Total	**(15,701)**	(8,799)

23. Financial Risk Management and Financial Instruments

Accounting classifications and fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments;
- fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

Refer to note 24 for IFRS 13 disclosures in respect of fair value measurement.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

At 31 December 2018	Fair value hierarchy	FVTPL - undesignated	FVTPL designated	FVTOCI	Amortised cost	Total
		€'000	€'000	€'000	€'000	€'000
Financial assets						
Cross currency interest rate swaps	Level 2	**-**	**26,922**	**(1,577)**	**-**	**25,345**
Foreign exchange rate contracts	Level 2	**69**	**-**	**-**	**-**	**69**
Trade and other receivables (excluding prepayments)		**-**	**-**	**-**	**62,023**	**62,023**
Cash and cash equivalents		**-**	**-**	**-**	**116,590**	**116,590**
Restricted deposits		**-**	**-**	**-**	**26,700**	**26,700**
Total financial assets		**69**	**26,922**	**(1,577)**	**205,313**	**230,727**
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	**(40)**	**-**	**-**	**-**	**(40)**
Trade and other payables		**-**	**-**	**-**	**(299,616)**	**(299,616)**
Total financial liabilities		**(3,977)**	**(24,167)**	**-**	**(1,467,275)**	**(1,495,419)**
Net financial (liabilities)/assets		**(3,908)**	**2,755**	**(1,577)**	**(1,261,962)**	**(1,264,692)**
At 31 December 2017						
Financial assets						
Cross currency interest rate swaps	Level 2	-	18,412	(2,495)	-	15,917
Foreign exchange rate contracts	Level 2	39	-	-	-	39
Interest rate/inflation linked derivatives	Level 2	141	-	-	-	141
Trade and other receivables (excluding prepayments)		-	-	-	97,827	97,827
Cash and cash equivalents		-	-	-	51,448	51,448
Restricted deposits		-	-	-	32,594	32,594
Total financial assets		180	18,412	(2,495)	181,869	197,966
Financial liabilities						
Borrowings and other debt[1]	Level 2	-	(15,578)	-	(1,169,923)	(1,185,501)
Interest rate/inflation linked derivatives	Level 2	(5,292)	-	-	-	(5,292)
Foreign exchange rate contracts	Level 2	(294)	-	-	-	(294)
Trade and other payables		-	-	-	(343,140)	(343,140)
Total financial liabilities		(5,586)	(15,578)	-	(1,513,063)	(1,534,227)
Net financial (liabilities)/assets		(5,406)	2,834	(2,495)	(1,331,194)	(1,336,261)

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

Derivative assets and liabilities designated as hedges

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

(i) Fair value hedges (FVTPL – designated)

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

(ii) Cash flow hedges (FVTOCI)

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

Maturity profile of cash flow hedges

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

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

Financial risk management

Financial risk management policies have been established 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. These 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.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

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

(i) Credit risk

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

Under the Gas network code of operations, Shippers may be required to provide Financial Security to GNI 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 14.

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade and other receivables (excluding prepayments, amounts due from related parties and grant receivable)	**54,332**	94,435
Cash and cash equivalents	**116,590**	51,448
Restricted deposits	**26,700**	32,594
Derivative financial instruments	**25,414**	16,097
Total	**223,036**	194,574

(i) (a) Treasury related credit risk

The Ervia Group operates a centralised treasury function, which undertakes all treasury activities of the Ervia Group, including on behalf of the Gas Networks Ireland Group.

Ervia Group Treasury, on behalf of the Gas Networks Ireland Group, manages treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. It is the Group's policy that cash is mainly placed on deposit with institutions who maintain an investment grade credit rating. Ervia 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 12 for an analysis of the Group's exposure to trade related credit risk.

Notes to the Group financial statements (continued)

23. 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, without incurring unacceptable losses or risking damage to the Group's reputation.

Ervia Group Treasury, on behalf of Gas Networks Ireland, 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 Company. All banking and treasury services are sourced at competitive prices. The Ervia Group Head of Treasury, supported by the Ervia Group Chief Financial Officer, the Ervia Group Chief Executive Officer, the Gas Networks Ireland Head of Finance and other appropriate senior managers, are responsible for managing and maintaining relationships.

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

(ii) (a) Funding

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

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

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

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

(ii) (b) Cash surpluses

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

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

(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.

	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-5 years	> 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2018						
Borrowings	**(1,191,826)**	**(1,329,278)**	**(470,851)**	**(20,742)**	**(155,497)**	**(682,188)**
Trade and other payables	**(299,616)**	**(299,616)**	**(257,108)**	**-**	**(42,508)**	**-**
Non-derivative financial liabilities	**(1,491,442)**	**(1,628,894)**	**(727,959)**	**(20,742)**	**(198,005)**	**(682,188)**
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	**29**	**29**	**29**	**-**	**-**	**-**
Net derivative financial assets	**21,437**	**32,055**	**16,712**	**2,228**	**13,115**	**-**
Net financial liabilities	**(1,470,005)**	**(1,596,839)**	**(711,247)**	**(18,514)**	**(184,890)**	**(682,188)**
At 31 December 2017						
Borrowings	(1,185,501)	(1,346,111)	(129,103)	(364,973)	(160,160)	(691,875)
Trade and other payables	(343,140)	(343,140)	(305,335)	-	(37,805)	-
Non-derivative financial liabilities	(1,528,641)	(1,689,251)	(434,438)	(364,973)	(197,965)	(691,875)
Interest rate derivatives	(5,151)	(5,232)	(1,938)	(1,907)	(1,387)	-
Cross currency interest rate swaps	15,917	30,395	8,328	11,717	10,350	-
Foreign exchange rate contracts	(255)	(255)	(255)	-	-	-
Net derivative financial assets	10,511	24,908	6,135	9,810	8,963	-
Net financial liabilities	(1,518,130)	(1,664,343)	(428,303)	(355,163)	(189,002)	(691,875)

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

(iii) Market risk

Market risk is the possibility that changes in market factors will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Ervia Group Treasury is responsible for managing market risk with respect to interest rates and currency exchange rates for the Group. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Ervia Group Treasury Policy. The treasury function generally seeks to apply hedge accounting in order to manage volatility in profit or loss.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Group's operations are conducted in currencies other than euro (mainly sterling). The objective of exchange rate risk management is to protect profitability by minimising the impact of material variations due to foreign exchange rate movements.

The potential exposure to exchange rate risk can be summarised as follows:

- **Subsidiaries operating in foreign currency (sterling)**

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

Intra-Group funding to foreign currency operations 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 currency operations is taken to the income statement. The profit/loss arising on the translation of foreign currency borrowings, to the extent that they are used to finance or to provide a hedge against the intragroup funding in foreign operations, is also taken to the income statement. The Policy is to match, insofar as is practical, the movements on both of these, using foreign exchange transactions where necessary.

- **Transaction exposure**

From time to time the Group makes purchases in foreign currencies. The Group's policy is to manage these transaction exposures by seeking to net purchases and sales denominated in foreign currencies as far as possible. Where this is not possible, exposures will be hedged using derivatives permitted under the Ervia Group's Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment. Also, the Ervia Group's Treasury Policy is that all expected transactions in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

- **Debt in a foreign currency**

The Group has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps. Sterling debt is used to hedge the investment in sterling denominated subsidiaries. Refer to note 16.

As a result of these actions taken by the Group to mitigate its underlying sensitivity to currency exchange rate fluctuations, the Group has not presented sensitivity analysis as any potential variation is insignificant.

(iii) (b) Interest rate risk

Interest rate risk derives from changes in interest rates which affect the market value of financial assets and liabilities of the Group and the level of finance charges. The Group's objective is to achieve a stable and low cost of debt, taking account of business risks in general and in particular the regulatory price control environment.

The Group's exposure to interest rate fluctuations covers two types of risk:

(i) a risk of change in the cash flows related to floating rate financial assets and liabilities; and

(ii) a risk of change in the value of fixed rate financial assets and liabilities.

The Group monitors exposure to interest rate risk on a calendar year basis. The Group's policy is to monitor open interest rate exposure positions, taking into account the current and expected shape of the yield curve, with a view to taking advantage of low interest rate environments to fix the Group's interest rate obligations and increase certainty as to the Group's interest rate expense profile. The Group uses a number of methods, including interest rate derivatives to manage the interest rate risk on its debt portfolio.

The percentage of the Group's fixed and floating rate debt at 31 December was as follows:

	2018	2018	2017	2017
	€'000	%	€'000	%
At fixed rates[1]	**(733,478)**	**61.6%**	(733,196)	61.8%
At floating rates	**(453,126)**	**38.0%**	(444,553)	37.5%
Inflation linked debt	**(5,222)**	**0.4%**	(7,752)	0.7%
Total	**(1,191,826)**	**100.0%**	(1,185,501)	100.0%

[1] including swaps.

The Group had €622.2 million of fixed rate debt (excluding interest rate swaps) at 31 December 2018 (2017: €621.9 million).

Notes to the Group financial statements (continued)

23. Financial Risk Management and Financial Instruments (continued)

On 31 December 2018, the Group had US$290.0 million (2017: US$290.0 million) fixed rate debt outstanding (€230.3 million equivalent (2017: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Group has a number of cross currency interest rate swaps which match the maturity profile of the debt. In 2017, a portion of this debt was subsequently hedged to convert the floating euro interest rates to fixed interest rates. At 31 December 2018, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in 2017 and were swapped for four years at an average rate of 0.004%.

At 31 December 2018, the weighted average interest rate of the fixed debt portfolio was 1.32% (2017: 1.32%), which comprised two bonds totalling €622.3 million and an interest rate swap portfolio of €111.2 million.

Interest costs on variable rate loans are reset on a periodic basis for one, three or six months over the prevailing market rate.

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 other comprehensive income would be as shown below:

	Profit before taxation gain/(loss)		Other comprehensive income	
	31-Dec-18	31-Dec-17	**31-Dec-18**	31-Dec-17
	€'000	€'000	**€'000**	€'000
50 bp increase	**3,442**	4,379	**-**	-
50 bp decrease	**(3,908)**	(4,280)	**-**	-

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

- all other variables, in particular foreign currency rates, remain constant;
- relates only to derivative financial instruments and floating debt;
- derivatives designated as cash flow hedges against movements in interest rates are assumed to be fully effective, recorded fully within equity with no impact on the income statement;
- changes in the carrying value of derivative financial instruments not in hedging relationships affect the income statement only; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations.

The impact on other comprehensive income and 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.

Notes to the Group financial statements (continued)

24. 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 year during which the change has occurred.

(a) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table sets out the valuation techniques applied by the Group in measuring fair value, together with any significant unobservable inputs.

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts *(Refer to note 23)*	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 23)*	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 reporting date. 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 23)*	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.

Notes to the Group financial statements (continued)

25. Operating Leases

Operating Lease Commitments

Amounts payable:	31-Dec-18 €'000	31-Dec-17 €'000
In less than one year	**(323)**	(323)
Between one and five years	**(1,139)**	(1,293)
After five years	**(3,032)**	(3,415)
Total	**(4,494)**	(5,031)

These operating leases are payable by the Group over the remaining lease terms and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are at an arm's length basis. Amounts included in the income statement in respect of land and building lease arrangements were €0.3 million (2017: €0.1 million).

Future Operating Lease Income

Amounts receivable:	31-Dec-18 €'000	31-Dec-17 €'000
In less than one year	**23,908**	25,802
Between one and five years	**79,885**	84,519
After five years	**106,574**	125,359
Total	**210,367**	235,680

Future operating lease income by the Group relates to agreements to allow third parties the use of parts of the Gas Network Transportation system. In accordance with the Group's accounting policy all receipts from these arrangements are deemed to be earned as part of the Group's core operations and accordingly the lease income is recognised as revenue in the income statement. Above is a profile of non-cancellable future operating lease income to be recognised as revenue in future years. The unexpired lease terms range from 4 to 13 years.

Notes to the Group financial statements (continued)

26. Subsidiaries

At 31 December 2018, the Group and the Company had the following subsidiaries:

	Company	Nature of Business	Group/ Company Share
1	GNI (UK) Limited	Gas Transmission	100%
2	Gas Networks Ireland (IOM) DAC	Gas Transmission	100%
3	Gaslink Independent System Operator DAC	Non Trading	100%

At 31 December 2018, the registered office addresses of the subsidiaries were;

The registered office of 1 is: 6 St. Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom.

The registered office of 2 and 3 is: Gasworks Road, Cork, Ireland.

27. Related Parties

The related party income/(expense) transaction values for 2018 and 2017 are detailed below:

		2018	2017
		€'000	€'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a)	**(22,726)**	(21,476)
Dividends	(i) (b)	**(54,189)**	(48,440)
		(76,915)	(69,916)

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

		31-Dec-18	31-Dec-17
		€'000	€'000
Ervia	(i)	**(159,946)**	(225,595)
Irish Water	(iv)	**592**	3,392
		(159,354)	(222,203)

Notes to the Group financial statements (continued)

27. Related Parties (continued)

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

(i) (a) Transactional and support service agreement cost

The Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to the Gas Networks Ireland Group, through the Ervia business divisions; Group Centre, Major Projects area, Supply Chain and Business Services Centre. The Business Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT.

(i) (b) Dividends

The Group declared an annual dividend of €54.2 million to Ervia during 2018 and paid €49.1 million, with the remaining €5.1 million payable in 2023. In 2017, the Group declared and paid €48.4 million.

Pension costs

Ervia operates defined benefit and defined contribution pension schemes. A number of the Group's employees participate in these schemes. The defined benefit scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Group recognises only the cost of contributions payable for the year in respect of the Group's employees. The contributions payable in respect of the Ervia Defined Contribution Scheme are charged to profit or loss in the years during which services are rendered by the Group's employees.

During the year, the total contributions payable in respect of the Group's employees was €5.5 million (2017: €5.6 million). These costs are included in the Group's employee benefit expense, set out in note 5.

(ii) Government sponsored bodies

In common with many other entities, the Group deals in the normal course of business with other Government sponsored bodies, such as, the Electricity Supply Board, Eirgrid and Local Authorities.

(iii) Banks owned by the Irish State

In the normal course of business, the Group transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Group's transactions with such banks are on normal commercial terms. The Group had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2018.

(iv) Irish Water

Irish Water is deemed to be a related party of the Group.

(iv) (a) Joint projects

In the normal course of business, Irish Water transacts with the Group in respect of their joint utility projects. No overhead or margins are applied by the companies, resulting in a direct recharge of costs incurred. Balances outstanding in respect of these transactions are included in the table above.

Notes to the Group financial statements (continued)

27. Related Parties (continued)

(v) Board members' interests

The Board members had no beneficial interests in the Group at any time during the year or at 31 December 2018.

(vi) Subsidiaries

The Group financial statements consolidate the results of the Company and its subsidiaries. A listing of the subsidiaries is provided in note 26. Transactions with related parties are entered into in the normal course of business. Sales to and from, together with outstanding payables and receivables to and from subsidiaries, are eliminated in the preparation of the financial statements, in accordance with IFRS 10.

(vii) Key management compensation

	2018	2017
	€'000	€'000
Short-term employee benefits	**(681)**	(655)
Post-employment benefits	**(84)**	(159)
Total	**(765)**	(814)

Key management consists of the Ervia Board, the Ervia CEO and his direct reports. Key management compensation costs are apportioned to the Group and other entities within the Ervia Group based on services provided.

28. Subsequent Events

At the date of approval of the financial statements the Directors are not aware of any post balance sheet events that require adjustment or disclosure to be made in the financial statements.

29. Approval of Financial Statements

The Directors approved the financial statements on March 25th 2019.

Company Balance Sheet
as at 31 December 2018

	Notes	31-Dec-18 €'000	31-Dec-17 €'000
Assets			
Non-current assets			
Property, plant and equipment	1	**2,148,817**	2,168,890
Intangible assets	2	**20,632**	17,569
Investment in subsidiary undertakings	17	**515**	515
Trade and other receivables	4	**187,692**	204,359
Derivative financial instruments	15	**13,240**	16,058
Total non-current assets		**2,370,896**	2,407,391
Current assets			
Inventories	3	**1,619**	1,011
Trade and other receivables	4	**50,488**	91,674
Cash and cash equivalents	5	**80,725**	16,650
Restricted deposits	6	**22,635**	28,507
Derivative financial instruments	15	**12,152**	39
Current tax assets	14	**218**	-
Total current assets		**167,837**	137,881
Total assets		**2,538,733**	2,545,272
Equity and liabilities			
Equity			
Share capital and share premium		**(318,353)**	(318,353)
Capital contribution		**(363,083)**	(363,083)
Cash flow hedge reserve		**1,381**	2,183
Retained earnings		**(169,571)**	(124,355)
Total equity attributable to equity holders of the Company		**(849,626)**	(803,608)
Liabilities			
Non-current liabilities			
Borrowings and other debt	8	**(742,435)**	(1,078,991)
Government grants	11	**(30,296)**	(34,349)
Deferred revenue	10	**(9,716)**	(12,801)
Provisions	12	**(7,201)**	(7,116)
Trade and other payables	13	**(5,100)**	-
Derivative financial instruments	15	**(392)**	-
Deferred tax liabilities	14	**(198,595)**	(201,541)
Total non-current liabilities		**(993,735)**	(1,334,798)
Current liabilities			
Borrowings and other debt	8	**(444,169)**	(98,758)
Government grants	11	**(3,922)**	(3,922)
Deferred revenue	10	**(7,923)**	(7,951)
Provisions	12	**(5,758)**	(5,676)
Trade and other payables	13	**(233,580)**	(288,353)
Derivative financial instruments	15	**(20)**	(255)
Current tax liabilities	14	**-**	(1,951)
Total current liabilities		**(695,372)**	(406,866)
Total liabilities		**(1,689,107)**	(1,741,664)
Total equity and liabilities		**(2,538,733)**	(2,545,272)

Profit for the financial year ended 31 December 2018 was €99.4 million (2017: €98.8 million). Refer to note 4 and 5 of the Group Financial Statements for disclosures in respect of Directors' remuneration and employee benefit expense respectively.

For and on behalf of the Board:

Mike Quinn

Mike Quinn
Chairman

Denis O'Sullivan
Director

March 25th 2019
Date of Approval

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital and share premium	Capital contribution	Cash flow hedge reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2017	(318,353)	(363,083)	513	(74,020)	(754,943)
Profit for the year	-	-	-	(98,775)	(98,775)
Other comprehensive income for the year, net of income tax	-	-	1,670	-	1,670
Total comprehensive expense/(income) for the year	-	-	1,670	(98,775)	(97,105)
Dividends (note 18)	-	-	-	48,440	48,440
Balance at 31 December 2017	(318,353)	(363,083)	2,183	(124,355)	(803,608)
Profit for the year	**-**	**-**	**-**	**(99,405)**	**(99,405)**
Other comprehensive expense for the year, net of income tax	**-**	**-**	**(802)**	**-**	**(802)**
Total comprehensive income for the year	**-**	**-**	**(802)**	**(99,405)**	**(100,207)**
Dividends (note 18)	**-**	**-**	**-**	**54,189**	**54,189**
Balance at 31 December 2018	**(318,353)**	**(363,083)**	**1,381**	**(169,571)**	**(849,626)**

The Company has authorised share capital of 1,000,000 ordinary shares of €1 each and issued share capital of 1 ordinary share of €1.

All attributable to owners of the Company.

Company Statement of Cash Flows
for the year ended 31 December 2018

	Notes	2018 €'000	2017 €'000
Net cash from operating activities	7	**259,642**	149,826
Cash flows from investing activities			
Payments for property, plant and equipment		**(82,664)**	(79,609)
Payments for intangible assets		**(5,463)**	(2,313)
Grants received	11	**245**	-
Net cash used in investing activities		**(87,882)**	(81,922)
Cash flows from financing activities			
Proceeds from borrowings		**99,662**	99,350
Repayment of borrowings		**(99,719)**	(39,719)
Repayment of loan to ultimate parent undertaking		**(72,000)**	(95,921)
Credit support arrangements		**-**	(3,630)
Interest received		**13,461**	-
Dividends paid	18	**(49,089)**	(48,440)
Net cash used in financing activities		**(107,685)**	(88,360)
Net increase/(decrease) in cash and cash equivalents	5	**64,075**	(20,456)
Cash and cash equivalents at 1 January	5	**16,650**	37,106
Cash and cash equivalents at 31 December	5	**80,725**	16,650

Notes to the Company financial statements

Notes to the Company financial statements (continued)

1. Property, Plant and Equipment

	Land and buildings	Plant, pipeline and machinery	Assets under construction	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2017	59,174	3,400,317	25,710	3,485,201
Additions	-	4,488	75,409	79,897
Transfers in year	442	78,680	(79,122)	-
Disposals	-	(4,951)	-	(4,951)
At 31 December 2017	59,616	3,478,534	21,997	3,560,147
Additions	**-**	**9,898**	**80,047**	**89,945**
Transfers in year	**28**	**77,116**	**(77,144)**	**-**
Disposals	**-**	**(6,148)**	**-**	**(6,148)**
At 31 December 2018	**59,644**	**3,559,400**	**24,900**	**3,643,944**
Accumulated depreciation and impairment losses				
At 1 January 2017	(17,029)	(1,273,629)	-	(1,290,658)
Depreciation for the year	(1,207)	(104,309)	-	(105,516)
Disposals	-	4,917	-	4,917
At 31 December 2017	(18,236)	(1,373,021)	-	(1,391,257)
Depreciation for the year	**(1,217)**	**(108,801)**	**-**	**(110,018)**
Disposals	**-**	**6,148**	**-**	**6,148**
At 31 December 2018	**(19,453)**	**(1,475,674)**	**-**	**(1,495,127)**
Carrying amounts				
At 31 December 2017	41,380	2,105,513	21,997	2,168,890
At 31 December 2018	**40,191**	**2,083,726**	**24,900**	**2,148,817**

During the year, the Company capitalised €0.1 million (2017: €0.1 million) in interest. The capitalisation rate was 2.0% (2017: 2.2%). The Company also capitalised €8.7 million in payroll costs during the year (2017: €9.3 million).

Capital commitments	2018	2017
	€'million	€'million
Capital expenditure that has been contracted for but has not been provided for	**31**	24

Notes to the Company financial statements (continued)

2. Intangible Assets

	Software and other	Software under development	Total
	€'000	€'000	€'000
Cost			
At 1 January 2017	127,826	7,789	135,615
Additions (incl internally developed)	-	2,466	2,466
Transfers in year	5,450	(5,450)	-
At 31 December 2017	133,276	4,805	138,081
Additions (incl internally developed)	**-**	**8,160**	**8,160**
Transfers in year	**5,866**	**(5,866)**	**-**
At 31 December 2018	**139,142**	**7,099**	**146,241**
Accumulated amortisation and impairment losses			
At 1 January 2017	(107,899)	-	(107,899)
Amortisation for the year	(12,613)	-	(12,613)
At 31 December 2017	(120,512)	-	(120,512)
Amortisation for the year	**(5,097)**		**(5,097)**
At 31 December 2018	**(125,609)**	**-**	**(125,609)**
Carrying amount			
At 31 December 2017	12,764	4,805	17,569
At 31 December 2018	**13,533**	**7,099**	**20,632**

The Company capitalised €0.4 million in payroll costs during the year (2017: €0.2 million).

3. Inventory

	31-Dec-18	31-Dec-17
	€'000	€'000
Gas stock and engineering materials	**1,619**	1,011

There were no write-downs of inventories to net realisable value in 2018 (2017: €nil).

Notes to the Company financial statements (continued)

4. Trade and Other Receivables

		31-Dec-18	31-Dec-17
		€'000	€'000
Trade receivables		**7,048**	42,378
Trade receivables – unbilled		**36,212**	38,472
Amounts due from subsidiaries		**188,333**	204,543
Amounts due from related parties	18	**592**	3,392
Prepayments		**2,242**	1,937
Other receivables		**3,753**	5,311
Total		**238,180**	296,033
Analysed as follows:			
Non-current		**187,692**	204,359
Current		**50,488**	91,674
Total		**238,180**	296,033

Trade receivables are stated net of allowances for impairment. Refer to note 18 for further details in respect of balances held with group undertakings.

Credit risk

Credit risk on receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Prepayments, amounts due from subsidiaries and amounts due from related parties are excluded from the analysis of credit exposure below. The maximum exposure to credit risk for trade and other receivables at the reporting date can be analysed as follows:

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade receivables	**7,048**	42,378
Trade receivables – unbilled	**36,212**	38,472
Other receivables	**3,753**	5,311
Total	**47,013**	86,161

Notes to the Company financial statements (continued)

4. Trade and Other Receivables (continued)

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Ireland	**47,013**	86,161
UK (including Northern Ireland and Isle of Man)	**-**	-
Total	**47,013**	86,161

The ageing of trade and other receivables, net of impairment, at the reporting date was:

	Net receivable	Net receivable
	31-Dec-18	31-Dec-17
	€'000	€'000
Not past due	**46,288**	84,794
0 – 30 days overdue	**166**	1,094
31 – 120 days overdue	**375**	152
> 120 days overdue	**184**	121
Total	**47,013**	86,161

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

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

Notes to the Company financial statements (continued)

5. Cash and Cash Equivalents

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Cash and cash equivalents	**80,725**	16,650
Total	**80,725**	16,650

	2018	2017
	€'000	€'000
At 1 January	**16,650**	37,106
Increase/(decrease) in cash and cash equivalents in the statement of cash flows	**64,075**	(20,456)
At 31 December	**80,725**	16,650

6. Restricted Deposits

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Current	**22,635**	28,507
Total	**22,635**	28,507

Notes to the Company financial statements (continued)

7. Cash Generated from Operations

	2018	2017
	€'000	€'000
Cash flows from operating activities		
Profit for the year	**99,405**	98,775
Adjustments for:		
Depreciation and amortisation	**111,194**	114,206
Net finance costs	**17,632**	16,451
Income tax expense	**15,915**	15,367
	244,146	244,799
Working capital changes:		
Change in inventories	**(608)**	1,362
Change in trade and other receivables	**39,192**	(33,170)
Change in trade and other payables	**21,221**	(18,582)
Change in deferred revenue	**(3,113)**	2,210
Change in provisions	**100**	(4,395)
Cash from operating activities	**300,938**	192,224
Interest paid	**(20,148)**	(24,486)
Income tax paid	**(21,148)**	(17,912)
Net cash from operating activities	**259,642**	149,826

Notes to the Company financial statements (continued)

8. Borrowings and Other Debt

This note provides information about the contractual terms of the Company's interest-bearing borrowings. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 15.

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

	Bonds	Loans from financial institutions[1]	Total	Bonds	Loans from financial institutions[1]	Total
	31-Dec-18	31-Dec-18	31-Dec-18	31-Dec-17	31-Dec-17	31-Dec-17
	€'000	€'000	€'000	€'000	€'000	€'000
Less than one year	**-**	**(444,169)**	**(444,169)**	-	(98,758)	(98,758)
Current borrowings	**-**	**(444,169)**	**(444,169)**	-	(98,758)	(98,758)
Between one and five years	**-**	**(121,447)**	**(121,447)**	-	(458,525)	(458,525)
More than five years	**(620,988)**	**-**	**(620,988)**	(620,466)	-	(620,466)
Non-current borrowings	**(620,988)**	**(121,447)**	**(742,435)**	(620,466)	(458,525)	(1,078,991)
Total	**(620,988)**	**(565,616)**	**(1,186,604)**	(620,466)	(557,283)	(1,177,749)

[1]including private placement notes.

Total borrowings includes €453.1 million (2017: €444.5 million) of floating rate debt and €733.5 million (2017: €733.2 million) of fixed rate debt which have been drawn down from various lenders.

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

Certain borrowings are held with related parties (refer to note 18 for further details).

Notes to the Company financial statements (continued)

9. Analysis of Net Debt

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

		31-Dec-18	31-Dec-17
		€'000	€'000
Total borrowings	8	**(1,186,604)**	**(1,177,749)**
Less fair value hedges recognised within borrowings	15	**24,167**	**15,578**
Less cash and cash equivalents	5	**80,725**	**16,650**
Net debt		**(1,081,712)**	**(1,145,521)**

Net debt reconciliation		2018	2017
		€'000	€'000
At 1 January		**(1,145,521)**	(1,068,525)
Cash from operations	7	**300,938**	192,224
Interest paid		**(20,148)**	(24,486)
Tax paid		**(21,148)**	(17,912)
Net capital expenditure		**(87,882)**	(81,922)
Dividends paid	18	**(49,089)**	(48,440)
Interest received		**13,461**	-
Repayment of loan to ultimate parent undertaking		**(72,000)**	(95,921)
Other cash items		**-**	(3,630)
Non-cash items		**(323)**	3,091
At 31 December		**(1,081,712)**	(1,145,521)

Notes to the Company financial statements (continued)

10. Deferred Revenue

	2018	2017
	€'000	€'000
At 1 January	**(20,752)**	(18,310)
Received in the year	**(3,126)**	(6,610)
Credited to the income statement	**6,239**	4,168
At 31 December	**(17,639)**	(20,752)
Analysed as follows:	31-Dec-18	31-Dec-17
	€'000	€'000
Non-current	**(9,716)**	(12,801)
Current	**(7,923)**	(7,951)
Total	**(17,639)**	(20,752)

11. Government Grants

	2018	2017
	€'000	€'000
At 1 January	**(38,271)**	(42,425)
Received in year	**(245)**	-
Credited to the income statement	**376**	232
Amortised in year	**3,922**	3,922
At 31 December	**(34,218)**	(38,271)
Analysed as follows:	31-Dec-18	31-Dec-17
	€'000	€'000
Non-current	**(30,296)**	(34,349)
Current	**(3,922)**	(3,922)
Total	**(34,218)**	(38,271)

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

Notes to the Company financial statements (continued)

12. Provisions

Provisions

Refer to note 21 of the Group Financial Statements for further disclosure in respect of the Company's provisions.

Contingencies

Contingent liabilities with respect to government grants are disclosed in note 11.

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

13. Trade and Other Payables

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade payables	**(9,449)**	(5,043)
Accruals	**(60,940)**	(55,009)
Other payables	**(30,476)**	(31,303)
Amounts owed to ultimate parent undertaking	**(122,626)**	(187,876)
Taxation and social insurance creditors[1]	**(15,189)**	(9,122)
Total	**(238,680)**	(288,353)
Analysed as follows:		
Non-current	**(5,100)**	-
Current	**(233,580)**	(288,353)
Total	**(238,680)**	(288,353)
[1]Taxation and social insurance creditors		
PAYE/PRSI/social insurance	**(554)**	(679)
VAT	**(14,635)**	(8,443)
Total	**(15,189)**	(9,122)

Notes to the Company financial statements (continued)

14. Tax

Current tax assets and liabilities	31-Dec-18 €'000	31-Dec-17 €'000
Current tax assets	**218**	-
Current tax liabilities	**-**	(1,951)

Deferred tax assets and liabilities

	Derivative financial instruments €'000	Property, plant and equipment and intangible assets €'000	Interest €'000	Other €'000	Total €'000
At 1 January 2017	73	(203,435)	(284)	110	(203,536)
Recognised in income statement	-	2,294	(428)	(110)	1,756
Recognised in equity	239	-	-	-	239
At 31 December 2017	312	(201,141)	(712)	-	(201,541)
Recognised in income statement	**-**	**1,833**	**1,228**	**-**	**3,061**
Recognised in equity	**(115)**	**-**	**-**	**-**	**(115)**
At 31 December 2018	**197**	**(199,308)**	**516**	**-**	**(198,595)**

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments

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

At 31 December 2018	Fair value hierarchy	FVTPL undesignated	FVTPL designated	FVTOCI	Total held at amortised cost	Total
	€'000	€'000	€'000	€'000	€'000	
Financial assets						
Cross currency interest rate swaps	Level 2	**-**	**26,922**	**(1,577)**	**-**	**25,345**
Foreign exchange rate contracts	Level 2	**47**	**-**	**-**	**-**	**47**
Trade and other receivables (excluding prepayments)		**-**	**-**	**-**	**235,938**	**235,938**
Cash and cash equivalents		**-**	**-**	**-**	**80,725**	**80,725**
Restricted deposits		**-**	**-**	**-**	**22,635**	**22,635**
Total financial assets		**47**	**26,922**	**(1,577)**	**339,298**	**364,690**
Financial liabilities						
Borrowings and other debt	Level 2	**-**	**(24,167)**	**-**	**(1,162,437)**	**(1,186,604)**
Interest rate derivatives	Level 2	**(381)**	**-**	**-**	**-**	**(381)**
Foreign exchange rate contracts	Level 2	**(31)**	**-**	**-**	**-**	**(31)**
Trade and other payables		**-**	**-**	**-**	**(238,680)**	**(238,680)**
Total financial liabilities		**(412)**	**(24,167)**	**-**	**(1,401,117)**	**(1,425,696)**
Net financial (liabilities)/assets		**(365)**	**2,755**	**(1,577)**	**(1,061,819)**	**(1,061,006)**
At 31 December 2017						
Financial assets						
Cross currency interest rate swaps	Level 2	-	18,412	(2,495)	-	15,917
Foreign exchange rate contracts	Level 2	39	-		-	39
Interest rate derivatives	Level 2	141	-		-	141
Trade and other receivables (excluding prepayments)		-	-	-	294,096	294,096
Cash and cash equivalents		-	-	-	16,650	16,650
Restricted deposits		-	-	-	28,507	28,507
Total financial assets		180	18,412	(2,495)	339,253	355,350
Financial liabilities						
Borrowings and other debt	Level 2	-	(15,578)	-	(1,162,171)	(1,177,749)
Foreign exchange rate contracts	Level 2	(255)	-	-	-	(255)
Trade and other payables		-	-	-	(288,353)	(288,353)
Total financial liabilities		(255)	(15,578)	-	(1,450,524)	(1,466,357)
Net financial (liabilities)/assets		(75)	2,834	(2,495)	(1,111,271)	(1,111,007)

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments (continued)

The Company uses the following categories for hedges:

(i) Fair value hedges (FVTPL - designated)

The ineffective portion of fair value hedges was €0.1 million for 2018 (2017: €0.1 million). The fair value of hedging derivatives in a fair value hedge in the balance sheet as at 31 December 2018 was €26.9 million asset (2017: €18.4 million asset).

(ii) Cash flow hedges (FVTOCI)

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

Maturity profile of cash flow hedges

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

	< 1 year	1-2 years	2-5 years	> 5 years	Total
	€'000	€'000	€'000	€'000	€'000
At 31 December 2018					
Cross currency interest rate swaps	**(1,199)**	**-**	**(367)**	**-**	**(1,566)**
Cash flow hedging derivatives	**(1,199)**	**-**	**(367)**	**-**	**(1,566)**
At 31 December 2017					
Cross currency interest rate swaps	-	(1,087)	(1,408)	-	(2,495)
Cash flow hedging derivatives	-	(1,087)	(1,408)	-	(2,495)

Financial risk management

Refer to note 23 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 Company.

(i) Credit risk

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

	31-Dec-18	31-Dec-17
	€'000	€'000
Trade and other receivables (excluding prepayments, amounts due from subsidiaries and amounts due from related parties)	**47,013**	86,161
Cash and cash equivalents	**80,725**	16,650
Restricted deposits	**22,635**	28,507
Derivative financial instruments	**25,392**	16,097
Total	**175,765**	147,415

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments (continued)

(i) (a) Treasury related credit risk

Refer to note 23 of the Group financial statements for an analysis of the Group's polices in respect of treasury related credit risk. These objectives, policies and processes are also adopted by the Company.

(i) (b) Trade related credit risk

Refer to note 4 for an analysis of the Company's exposure to trade related credit risk.

(ii) Funding and Liquidity risk

Refer to note 23 of the Group financial statements for details of the Group's objectives, policies and processes for managing funding and liquidity risk and the methods used to measure liquidity risk. These objectives, policies and processes are also adopted by the Company.

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

The Company seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Company maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk. At 31 December 2018, the Company had €1,617.0 million in committed facilities (2017: €1,517.9 million). Borrowings at 31 December 2018 were €1,186.6 million (2017: €1,177.7 million).

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.

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments (continued)

	Carrying amount	Contractual cash flows	< 1 year	1-2 years	2-5 years	> 5 years
	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2018						
Borrowings	(1,186,604)	(1,324,042)	(468,307)	(18,050)	(155,497)	(682,188)
Trade and other payables	(238,680)	(238,930)	(233,580)	-	(5,350)	-
Non-derivative financial liabilities	(1,425,284)	(1,562,972)	(701,887)	(18,050)	(160,847)	(682,188)
Interest rate derivatives	(381)	(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	16	16	16	-	-	-
Net derivative financial assets	24,980	32,042	16,699	2,228	13,115	-
Net financial liabilities	(1,400,304)	(1,530,930)	(685,188)	(15,822)	(147,732)	(682,188)
At 31 December 2017						
Borrowings	(1,177,749)	(1,338,325)	(126,553)	(362,430)	(157,467)	(691,875)
Trade and other payables	(288,353)	(288,353)	(288,353)	-	-	-
Non-derivative financial liabilities	(1,466,102)	(1,626,678)	(414,906)	(362,430)	(157,467)	(691,875)
Interest rate/inflation linked derivatives	141	67	(252)	(186)	505	-
Cross currency interest rate swaps	15,917	30,395	-	8,328	22,067	-
Foreign exchange rate contracts	(216)	(216)	(216)	-	-	-
Net derivative financial assets/(liabilities)	15,842	30,246	(468)	8,142	22,572	-
Net financial liabilities	(1,450,260)	(1,596,432)	(415,374)	(354,288)	(134,895)	(691,875)

(iii) Market risk

Refer to note 23 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 Company.

(iii) (a) Exchange rate risk

Exchange rate risk derives from the fact that some of the Company's transaction may be conducted in currencies other than the euro (mainly sterling). Refer to note 23 of the Group financial statements for details of the Group's objectives, policies and processes for managing exchange rate risk and the methods used to measure exchange rate risk. These objectives, policies and processes are also adopted by the Company.

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments (continued)

- **Transaction exposure**

From time to time the Company 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 Ervia Group's Treasury Policy. Exposures will be hedged taking account of the business risks and the regulatory environment. Also, the Ervia Group's Treasury Policy is that all expected transactions in excess of €300,000 equivalent in foreign currencies will be evaluated with respect to the business risks and, where appropriate, currency risks will be hedged to minimise the potential for adverse variances arising from currency movements.

- **Debt in a foreign currency**

The Comapny has US dollar denominated Private Placements that have been converted to euro using cross currency interest rate swaps. Sterling debt is used to hedge the investment in sterling denominated subsidiaries. Refer to note 8.

As a result of these actions taken to mitigate the Company's underlying sensitivity to currency fluctuations, the Company has not presented sensitivity analysis as any potential variation is insignificant.

(iii) (b) Interest rate risk

Refer to note 23 of the Group financial statements for details of the Group's objectives, policies and processes for managing interest rate risk and the methods used to measure interest rate risk. These objectives, policies and processes are also adopted by the Company.

The percentage of the Company's fixed and floating rate debt at 31 December was as follows:

	2018	2018	2017	2017
	€'000	%	€'000	%
At fixed rates[1]	**(733,478)**	**61.8%**	(733,196)	62.3%
At floating rates	**(453,126)**	**38.2%**	(444,553)	37.7%
Total	**(1,186,604)**	**100.0%**	(1,177,749)	100.0%

[1] including swaps.

The Company had €622.2 million of fixed rate debt (excluding interest rate swaps) at 31 December 2018 (2017: €621.9 million).

On 31 December 2018, the Company had US$290.0 million (2017: US$290.0 million) fixed rate debt outstanding (€230.3 million equivalent (2017: €230.3 million)) in a US dollar Private Placement transaction which was completed on 31 March 2009. In order to fully hedge the associated US dollar exchange rate exposures and convert the underlying interest rates to floating euro, the Company has a number of cross currency interest rate swaps which match the maturity profile of the debt. In 2017, a portion of this debt was subsequently hedged to convert the floating euro interest rates to fixed interest rates. At 31 December 2018, the Group had outstanding interest rate swaps with a notional principal of €111.2 million, which commenced in 2017 and were swapped for four years at an average rate of 0.004%.

Notes to the Company financial statements (continued)

15. Financial Risk Management and Financial Instruments (continued)

At 31 December 2018, the weighted average interest rate of the fixed debt portfolio was 1.32% (2017: 1.32%), which comprised two bonds totalling €622.3 million and an interest rate swap portfolio of €111.2 million.

Interest costs on variable rate loans were reset on a periodic basis for one, three or six months over the prevailing market rate.

Cash flow sensitivity analysis for floating rate debt

The policies and processes for the management and control of interest rate risk aim to reduce the impact of short-term interest rate fluctuations on earnings. Nevertheless, long-term changes in interest rates will have an impact on the Company'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 cash flow hedges and their impact on other comprehensive income would be as shown below:

	Profit before taxation gain/(loss)		Other comprehensive income/ (expense)	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	€'000	€'000	€'000	€'000
50 bp increase	**3,380**	4,232	**-**	-
50 bp decrease	**(3,812)**	(4,122)	**-**	-

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 profit or loss,
- 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 other comprehensive income and 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.

Notes to the Company financial statements (continued)

16. Operating Leases

Future operating lease income

Future operating lease income relates to agreements to allow third parties the use of parts of the Gas Network Transportation system. All lease arrangements are on an arm's length basis.

Amounts receivable:	31-Dec-18 €'000	31-Dec-17 €'000
In less than one year	**15,227**	16,821
Between one and five years	**47,355**	53,028
After five years	**106,574**	116,128
Total	**169,156**	185,977

Operating lease commitments

The following operating leases are payable by the Company over the remaining lease terms and generally relate to the rental of land and buildings. There are no significant or unusual restrictions imposed by the terms of the operating leases. All lease arrangements are on an arm's length basis.

Amounts payable:	31-Dec-18 €'000	31-Dec-17 €'000
In less than one year	**(323)**	(323)
Between one and five years	**(1,139)**	(1,293)
After five years	**(3,032)**	(3,415)
Total	**(4,494)**	(5,031)

Amounts included in the income statement in respect of land and building lease arrangements were €0.3 million (2017: €0.1 million).

Notes to the Company financial statements (continued)

17. Investment in Subsidiaries

	€'000
Cost	
At 1 January 2018	515
At 31 December 2018	**515**
Impairment	
At 1 January 2018	-
At 31 December 2018	**-**
Carrying amount	
At 31 December 2017	515
At 31 December 2018	**515**

Refer to Group Financial Statements note 26 for details of the particulars of the Company's subsidiaries.

18. Related Parties

The related party income/(expense) transaction values for 2018 and 2017 are detailed below:

		2018 €'000	2017 €'000
Ervia	(i)		
Transactional and support service agreement costs	(i) (a)	**(22,725)**	(21,476)
Dividends	(i) (b)	**(54,189)**	(48,440)
		(76,914)	(69,916)
Subsidiaries	(vi)		
Transactional and support service agreement costs	(vi) (a)	**3,077**	3,077
Interest income	(vi) (b)	**3,394**	3,704
Transportation supply services	(vi) (c)	**(39,889)**	(39,877)
		(33,418)	(33,096)

Notes to the Company financial statements (continued)

18. Related Parties (continued)

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

		31-Dec-18	31-Dec-17
		€'000	€'000
Ervia	(i)	**(122,626)**	(187,876)
Irish Water	(iv)	**592**	3,392
Subsidiaries	(vi)	**188,333**	204,543
		66,299	20,059

(i) Ultimate parent undertaking

Ervia is a corporate body established under the Gas Act 1976. Ervia is 100% beneficially owned by the Irish State.

(i) (a) Transactional and support service agreement costs

The Ervia Group provides strategic, governance, risk management, capital delivery management and transactional and support services to the Gas Networks Ireland Group, through the Ervia business divisions; Group Centre, Major Projects area, Supply Chain and Business Services Centre. The Business Services Centre is designed to provide transactional and support services in the areas of Finance, Procurement, Facilities, HR and IT.

(i) (b) Dividends

The Company declared an annual dividend of €54.2 million to Ervia during 2018 and paid €49.1 million, with the remaining €5.1 million payable in 2023. In 2017, the Company declared and paid €48.4 million.

Pension costs

Ervia operates defined benefit and defined contribution pension schemes. A number of the Company's employees participate in these schemes. The defined benefit scheme is accounted for as a Group Plan in accordance with IAS 19. Ervia, as the sponsoring employer for the plan, recognises the net defined benefit cost, while the Company recognises only the cost of contributions payable for the year in respect of the Company's employees. The contributions payable in respect of the Ervia Defined Contribution Scheme are charged to profit or loss in the years during which services are rendered by the Company's employees.

During the year, the total contributions payable in respect of the Company's employees was €5.5 million (2017: €5.6 million). These costs are included in the Company's employee benefit expense, set out in note 5 of the Group Financial Statements.

(ii) Government sponsored bodies

In common with many other entities, the Company deals in the normal course of business with other Government sponsored bodies, such as, the Electricity Supply Board, Eirgrid and Local Authorities.

Notes to the Company financial statements (continued)

18. Related Parties (continued)

(iii) Banks owned by the Irish State

In the normal course of business, the Company transacts with certain Irish banks which are wholly or partially controlled by the Irish Government. All of the Company's transactions with such banks are on normal commercial terms. The Company had no material concentration of borrowings or deposits with any such banks during the year or at 31 December 2018.

(iv) Irish Water

Irish Water is deemed to be a related party of the Company.

(iv) (a) Joint projects

In the normal course of business, Irish Water transacts with the Company in respect of their joint utility projects. No overhead or margins are applied by the companies, resulting in a direct recharge of costs incurred. Balances outstanding in respect of these transactions are included in the table above.

(v) Board members' interests

The Board members had no beneficial interests in the Company at any time during the year or at 31 December 2018.

(vi) Subsidiaries

In addition the Company entered into transactions with subsidiaries in the normal course of business during the year as follows:

(vi) (a) Transactional and support service agreement costs

Refer to (i) (a) above for a description of the services received from Ervia and recharged to subsidiaries, as appropriate.

(vi) (b) Interest income

The Company had interest income from subsidiaries arising on intercompany loan facilities.

(vi) (c) Transportation services

During the year the Company purchased services and supplies of €39.9 million (2017: €39.9 million) from a subsidiary. This expenditure primarily related to transportation services.

Gas
Networks
Ireland